



Metsimaholo Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)

Nature of business and principal activities

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Waste Management Services (the collection, disposal and purifying of waste, refuse and sewerage); Electricity Services (electricity is bought in bulk from Eskom and distributed to the consumers by the municipality); Water Services (supplying water to the public); and Rates and general services (all types of services rendered by the municipality, excluding the supply housing to the community, however including the rental of units owned by the municipality to public and staff).

Mayoral Committee

Mosokweni FD (18 January 2018 - 20 Decemebr 2018; 20 March 2019- 30 June 2019)
Makhefu LA (18 January 2018 -30 Novemebr 2018)
Malindi MJ (18 January 2018- 30 June 2019)
Fisher L (18 January 2018- 4 October 2018; 20 March 2019- 30 June 2019)
Semonyo LS (18 January 2018- 30 June 2019)
Mokoena NP (18 Jnauary 2018 -4 October 2018; 20 March 2019- 30 June 2019)
Nyaku DJ (18January 2018- 28 May 2019)
Poho MS (18 January 2018 -30 June 2019)
Molawa M
Mtshali NM (20 March 2019 to 30 June 2019)

Executive Mayor

Tshongwe SL

Speaker

Mabasa KT

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Councillors

Barnard JJ (from 1 December 2017)
Burger GS (from 1 December 2017)
Du Plooy A
Du Toit T
Dywili NN (from 10 August 2016)
Gaigher L (late) (from 10 August 2016 till March 2018)
Grobbelaar JJ
Kobo SS (from 10 August 2016)
Leotlela MG (from 1 December 2017)
Mahlaela PM (from 1 December 2017)
Makhefu L (Chairperson Ethics)
Mare AK
Maseko ME (from 1 December 2017)
Mashia VL (Council Whip from 29 May 2019)
Matwa SM (18 July 2018)
Mbana MT (15 November 2018)
Meyer R (18 July 2018)
Mofokeng KB
Mofokeng TH (from 1 December 2017)
Mohapi P (from 1 December 2017)
Mokoena MP (from 10 August 2016)
Mokoena TS (from 1 December 2017)
Molawa M (from 10 August 2016) MPAC chairperson from 25 January 2018
Motaung TA (from 10 August 2016) and MPAC chairperson from 28 September 2016 till 30 June 2017
Mothale S (from 1 December 2017)
Motjeane S (from 10 August 2016) and Ethics chairperson from 28 September 2016 till 30 June 2017
Motloung TM (from 1 December 2017)
Mtshali NM (from 1 December 2017)
Nhlapo LL (from 1 December 2017)
Nkheloane M (from 1 December 2017)
Nnune GB
Nteso SJ (from 10 August 2016)
Nyembe BV (Council Whip from 21 December 2017)
Taats TJ (from 1 December 2017)
Telane MM (from 10 August 2016)
Tsetetsi L (from 10 August 2016)
Van der Merwe FJ (from 1 December 2017)
Van Heerden LJ
Zwane ZJ (from 23 February 2017)

Capacity and grading of local authority

Metsimaholo Local Municipality is a grade 9 local authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
High Capacity

Demarcation code

FS204

Accounting Officer

Acting - S M Molala
Acting - MM Ramovha

Chief Financial Officer (CFO)

Acting - A Vorster

Registered office

Civic Centre
Fichardt Street
Sasolburg
1947

Business address

Civic Centre
Fichardt Street

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

| | |
|--|---|
| | Sasolburg 1947 |
| Postal address | PO Box 60 Sasolburg 1947 |
| Bankers | The Standard Bank of South Africa Ltd ABSA Bank Ltd |
| Auditors | Auditor-General of South Africa |
| Attorneys | Adolff Attorneys Boitumelo Maubane Attorneys Lebea and Associates Attorneys Leepile & Mbewe Inc Lizel Venter Attorneys Melato Attorneys Melato - Mkhwanazi Attorneys. Molefi Thoabala Inc Attorneys Mollenaar and Griffiths Attorneys and Conveyancers Moroka Attorneys Ndobela Attorneys Ponoane Attorney, Notaries and Conveyancers Rasegoete & Associates Werksmans Inc |
| Legislation governing the municipality's operations | Local Government: Municipal Finance Management Act (Act No. 56 of 2003) Local Government: Municipal Systems Act (Act No. 32 of 2000) Local Government: Municipal Structures Act (Act No. 117 of 1998) Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Property Rates Act (Act No. 6 2004) Division of Revenue Act (Act No. 1 of 2007) |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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The reports and statements set out below comprise the annual financial statements presented to the council:

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| List of abbreviations | |
| ASB | Accounting Standards Board |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IPSAS | International Public Sector Accounting Standards |
| IPSASB | International Public Sector Accounting Standards Board |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Responsibilities and Approval

The Accounting Officer is responsible for the preparation of the annual financial statements in terms of section 126(1) of the Municipal Finance Management Act (Act 56 of 2003). The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any Interpretations, Guidelines and Directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I, as the Accounting Officer, acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, I am satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although I am primarily responsible for the financial affairs of the municipality, this is supported by the municipality's external auditors.

I would like to bring the following matters to your attention:

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 30 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019 and were signed on his/her behalf by:

Acting accounting officer
MM Ramohva

Sasolburg

31 August 2019

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 1,467,433 | 18,401,483 |
| Other financial assets | 4 | 3,640,357 | 3,265,411 |
| Receivables from exchange transactions | 5&7 | 242,692,021 | 195,883,931 |
| Receivables from non-exchange transactions | 6&7 | 117,303,658 | 87,324,171 |
| Cash and cash equivalents | 8 | 13,877,193 | 21,042,894 |
| Construction contracts and receivables | 54 | 18,451,758 | - |
| | | 397,432,420 | 325,917,890 |
| Non-Current Assets | | | |
| Investment property | 9 | 295,200,836 | 278,220,632 |
| Property, plant and equipment | 10 | 1,390,096,253 | 1,359,565,341 |
| Intangible assets | 11 | 2,532,182 | 3,484,671 |
| Heritage assets | 12 | 561,001 | 561,001 |
| Receivables from exchange transactions | 5 | 1,643,807 | 363,681 |
| | | 1,690,034,079 | 1,642,195,326 |
| Total Assets | | 2,087,466,499 | 1,968,113,216 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 13 | 222,661,127 | 226,925,895 |
| VAT payable | 14 | 14,749,690 | 3,010,678 |
| Finance lease obligation | 15 | 3,347,599 | 3,257,767 |
| Consumer deposits | 16 | 22,590,657 | 20,993,784 |
| Unspent conditional grants and receipts | 17 | 6,975,848 | 1,672,391 |
| Employee benefit obligation | 18 | 4,565,000 | 4,147,000 |
| Short term portion - long term loan | 19 | 1,634,939 | 1,501,886 |
| | | 276,524,860 | 261,509,401 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 15 | 3,828,028 | 7,175,623 |
| Employee benefit obligation | 18 | 50,116,000 | 44,982,000 |
| Long term portion - long term loan | 19 | - | 1,634,939 |
| Provisions | 20 | 85,161,553 | 77,980,482 |
| | | 139,105,581 | 131,773,044 |
| Total Liabilities | | 415,630,441 | 393,282,445 |
| Net Assets | | 1,671,836,058 | 1,574,830,771 |
| Accumulated surplus | | 1,671,836,058 | 1,574,830,771 |

* See Note 45

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---------|------------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 21 | 698,481,721 | 638,641,088 |
| Licences and permits | 22 | 105,569 | 115,270 |
| Operational revenue | 23 | 3,471,562 | 8,810,350 |
| Income legal costs | | 2,755,174 | 4,412,269 |
| Interest received - investment | 24 | 3,783,637 | 3,782,188 |
| Dividends received | 24 | 115,088 | 106,973 |
| Interest received - consumers | | 37,326,833 | 32,954,552 |
| Sale of stands | | 396,849 | 800,994 |
| Gain on disposal of assets and liabilities | | 1,513,879 | 1,362,245 |
| Rental of facilities and equipment | | 5,852,302 | 6,156,372 |
| Total revenue from exchange transactions | | 753,802,614 | 697,142,301 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 25 | 143,648,432 | 134,499,406 |
| Transfer revenue | | | |
| Government grants and subsidies | 26 | 269,173,065 | 244,552,336 |
| Public contributions and donations | 27 | 27,859,519 | 15,883,454 |
| Fines, penalties and forfeits | 28 | 4,055,117 | 9,851,422 |
| Total revenue from non-exchange transactions | | 444,736,133 | 404,786,618 |
| Total revenue | | 1,198,538,747 | 1,101,928,919 |
| Expenditure | | | |
| Employee related costs | 29 | (288,617,758) | (268,480,401) |
| Remuneration of councillors | 30 | (17,554,110) | (9,996,810) |
| Depreciation and amortisation | 31 | (72,118,140) | (74,248,368) |
| Finance costs | 32 | (8,063,255) | (8,273,084) |
| Lease rentals on operating lease | 33 | (9,078,044) | (10,510,395) |
| Debt impairment | 34 | (168,448,196) | (160,445,391) |
| Bulk purchases | 35 | (397,279,610) | (338,343,506) |
| Contracted services | 36 | (80,843,545) | (75,339,099) |
| Transfers and subsidies | 37 | (296,533) | (9,000) |
| Inventories losses/write-downs | | (193,720) | (543,063) |
| Operating expenditure | 38 | (59,040,549) | (51,720,174) |
| Total expenditure | | (1,101,533,460) | (997,909,291) |
| Surplus for the year | | 97,005,287 | 104,019,627 |

* See Note 45

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|----------------------|----------------------|
| Opening balance as previously reported | 1,181,859,476 | 1,181,859,476 |
| Adjustments | | |
| Prior year adjustments | 288,951,668 | 288,951,668 |
| Balance at 01 July 2017 as restated* | 1,470,811,144 | 1,470,811,144 |
| Changes in net assets | | |
| Surplus for the year | 104,019,627 | 104,019,627 |
| Total changes | 104,019,627 | 104,019,627 |
| Restated* Balance at 01 July 2018 | 1,574,830,771 | 1,574,830,771 |
| Changes in net assets | | |
| Surplus for the year | 97,005,287 | 97,005,287 |
| Total changes | 97,005,287 | 97,005,287 |
| Balance at 30 June 2019 | 1,671,836,058 | 1,671,836,058 |

* See Note 45

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 624,899,166 | 592,249,797 |
| Grants | | 274,476,522 | 238,640,976 |
| Interest income | | 3,408,691 | 3,535,281 |
| Dividends received | | 115,088 | 106,973 |
| Other receipts | | 7,823,609 | 14,757,207 |
| | | <u>910,723,076</u> | <u>849,290,234</u> |
| Payments | | | |
| Employee costs | | (304,102,166) | (264,341,540) |
| Suppliers | | (535,844,631) | (484,691,482) |
| Finance costs | | (2,157,388) | (2,487,352) |
| | | <u>(842,104,185)</u> | <u>(751,520,374)</u> |
| Net cash flows from operating activities | 39 | <u>68,618,891</u> | <u>97,769,860</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 10 | (71,040,815) | (86,042,843) |
| Proceeds from sale of other intangible assets | 11 | 15,872 | - |
| Net cash flows from investing activities | | <u>(71,024,943)</u> | <u>(86,042,843)</u> |
| Cash flows from financing activities | | | |
| Movement in long term portion - long term loan | | (1,501,886) | (1,379,692) |
| Finance lease payments | | (3,257,763) | (1,932,026) |
| Net cash flows from financing activities | | <u>(4,759,649)</u> | <u>(3,311,718)</u> |
| Net increase/(decrease) in cash and cash equivalents | | <u>(7,165,701)</u> | <u>8,415,299</u> |
| Cash and cash equivalents at the beginning of the year | | 21,042,894 | 12,627,595 |
| Cash and cash equivalents at the end of the year | 8 | <u>13,877,193</u> | <u>21,042,894</u> |

* See Note 45

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|------------------------|---------------------|------------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of financial performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 727,626,490 | 13,554,590 | 741,181,080 | 698,481,721 | (42,699,359) | 52.1 |
| Rental of facilities and equipment | 6,086,200 | - | 6,086,200 | 5,852,302 | (233,898) | |
| Interest received - trading | 31,508,970 | 5,480,000 | 36,988,970 | 37,326,833 | 337,863 | |
| Licences and permits (exchange) | 210,930 | - | 210,930 | 105,569 | (105,361) | 52.2 |
| Other income | 3,953,080 | 48,500 | 4,001,580 | 3,471,562 | (530,018) | 52.3 |
| Legal fees | 5,850,480 | (600,000) | 5,250,480 | 2,755,174 | (2,495,306) | 52.4 |
| Interest received - investment | 1,300,000 | 200,000 | 1,500,000 | 3,783,637 | 2,283,637 | 52.5 |
| Dividends received - investment | - | - | - | 115,088 | 115,088 | 52.6 |
| Total revenue from exchange transactions | 776,536,150 | 18,683,090 | 795,219,240 | 751,891,886 | (43,327,354) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 140,000,600 | 866,270 | 140,866,870 | 143,648,432 | 2,781,562 | 52.7 |
| Transfer revenue | | | | | | |
| Government grants and subsidies | 278,088,580 | - | 278,088,580 | 269,173,065 | (8,915,515) | 52.8 |
| Public contributions and donations | - | 12,755,840 | 12,755,840 | 27,859,519 | 15,103,679 | 52.9 |
| Fines, penalties and forfeits | 16,920,100 | (4,000,000) | 12,920,100 | 4,055,117 | (8,864,983) | 52.10 |
| Total revenue from non-exchange transactions | 435,009,280 | 9,622,110 | 444,631,390 | 444,736,133 | 104,743 | |
| Total revenue | 1,211,545,430 | 28,305,200 | 1,239,850,630 | 1,196,628,019 | (43,222,611) | |
| Expenditure | | | | | | |
| Employee costs | (307,178,430) | (13,993,500) | (321,171,930) | (288,617,758) | 32,554,172 | 52.11 |
| Remuneration of councillors | (18,105,160) | (434,350) | (18,539,510) | (17,554,110) | 985,400 | 52.12 |
| Depreciation and amortisation | (67,920,380) | 1,815,440 | (66,104,940) | (72,118,140) | (6,013,200) | 52.13 |
| Finance costs | (2,714,950) | (300,000) | (3,014,950) | (8,063,255) | (5,048,305) | 52.14 |
| Lease rentals on operating lease | (9,197,240) | (2,749,270) | (11,946,510) | (9,078,044) | 2,868,466 | 52.15 |
| Debt impairment | (117,921,150) | (8,195,380) | (126,116,530) | (168,448,196) | (42,331,666) | 52.16 |
| Bulk purchases | (386,319,190) | (4,747,400) | (391,066,590) | (397,279,610) | (6,213,020) | 52.17 |
| Contracted services | (102,926,490) | 5,907,120 | (97,019,370) | (80,843,545) | 16,175,825 | 52.18 |
| Transfers and subsidies | (1,040,500) | 582,000 | (458,500) | (296,533) | 161,967 | |
| General expenses | (79,506,390) | 1,494,300 | (78,012,090) | (59,040,549) | 18,971,541 | 52.19 |
| Total expenditure | (1,092,829,880) | (20,621,040) | (1,113,450,920) | (1,101,339,740) | 12,111,180 | |
| Operating surplus | 118,715,550 | 7,684,160 | 126,399,710 | 95,288,279 | (31,111,431) | |
| Gain on disposal of assets and liabilities | - | - | - | 1,513,879 | 1,513,879 | |
| Sale of land | 2,107,260 | - | 2,107,260 | 396,849 | (1,710,411) | 52.20 |
| Inventories losses/write-downs | - | - | - | (193,720) | (193,720) | |
| | 2,107,260 | - | 2,107,260 | 1,717,008 | (390,252) | |
| Surplus before taxation | 120,822,810 | 7,684,160 | 128,506,970 | 97,005,287 | (31,501,683) | |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|------------------|--------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| Actual amount on comparable basis as presented in the budget and actual comparative statement | 120,822,810 | 7,684,160 | 128,506,970 | 97,005,287 | (31,501,683) | |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|--------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of financial position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Inventories | 14,000,000 | 4,521,480 | 18,521,480 | 1,467,433 | (17,054,047) | |
| Other financial assets | 2,900,000 | 361,498 | 3,261,498 | 3,640,357 | 378,859 | |
| Construction contracts and receivables | - | - | - | 18,451,758 | 18,451,758 | |
| Receivables from non-exchange transactions | 90,498,061 | (407,013) | 90,091,048 | 117,303,658 | 27,212,610 | |
| Cash and cash equivalents | 12,395,000 | 19,462,180 | 31,857,180 | 13,877,193 | (17,979,987) | |
| | 119,793,061 | 23,938,145 | 143,731,206 | 154,740,399 | 11,009,193 | |
| Non-Current Assets | | | | | | |
| Investment property | 86,057,386 | (1,875,450) | 84,181,936 | 295,200,836 | 211,018,900 | |
| Property, plant and equipment | 1,076,878,238 | 230,678,088 | 1,307,556,326 | 1,390,096,253 | 82,539,927 | |
| Intangible assets | 5,021,003 | (2,585,332) | 2,435,671 | 2,532,182 | 96,511 | |
| Heritage assets | 561,001 | - | 561,001 | 561,001 | - | |
| Receivables from exchange transactions | - | - | - | 6,427,504 | 6,427,504 | |
| | 1,168,517,628 | 226,217,306 | 1,394,734,934 | 1,694,817,776 | 300,082,842 | |
| Total Assets | 1,288,310,689 | 250,155,451 | 1,538,466,140 | 1,849,558,175 | 311,092,035 | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Finance lease obligation | 4,288,944 | (1,031,177) | 3,257,767 | 3,347,599 | 89,832 | |
| Payables from exchange transactions | 112,164,229 | 42,059,969 | 154,224,198 | 222,661,124 | 68,436,926 | |
| VAT payable | - | 7,526,756 | 7,526,756 | 14,749,690 | 7,222,934 | |
| Consumer deposits | 15,400,000 | 7,093,783 | 22,493,783 | 22,590,657 | 96,874 | |
| Employee benefit obligation | - | - | - | 4,565,000 | 4,565,000 | |
| Unspent conditional grants and receipts | - | - | - | 6,975,848 | 6,975,848 | |
| Short term portion - long term loan | - | - | - | 1,634,939 | 1,634,939 | |
| | 131,853,173 | 55,649,331 | 187,502,504 | 276,524,857 | 89,022,353 | |
| Non-Current Liabilities | | | | | | |
| Finance lease obligation | - | 7,175,623 | 7,175,623 | 3,828,028 | (3,347,595) | |
| Employee benefit obligation | 46,374,347 | 458,900 | 46,833,247 | 50,116,000 | 3,282,753 | |
| Provisions | 38,276,638 | 154,704 | 38,431,342 | 85,161,553 | 46,730,211 | |
| Long term portion - long term loan | 1,634,940 | - | 1,634,940 | - | (1,634,940) | |
| | 86,285,925 | 7,789,227 | 94,075,152 | 139,105,581 | 45,030,429 | |
| Total Liabilities | 218,139,098 | 63,438,558 | 281,577,656 | 415,630,438 | 134,052,782 | |
| Net Assets | 1,070,171,591 | 186,716,893 | 1,256,888,484 | 1,433,927,737 | 177,039,253 | |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|----------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus | 1,394,312,366 | 53,313,064 | 1,447,625,430 | 1,671,836,062 | 224,210,632 | |

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Appropriation Statement

Figures in Rand

| Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|---|----------------------------|--------------------------------|
|---|---|----------------------------|--------------------------------|

Metsimaholo Local Municipality

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Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|------------------------|---|--------------------------|--|---|------------------------|------------------------|--------------------------|---------------------|-------------------------------------|--|
| 2019 | | | | | | | | | | | |
| Financial performance | | | | | | | | | | | |
| Property rates | 140,000,600 | 866,270 | 140,866,870 | - | | 140,866,870 | 143,648,432 | | 2,781,562 | 102 % | 103 % |
| Service charges | 727,626,490 | 13,554,590 | 741,181,080 | - | | 741,181,080 | 698,481,721 | | (42,699,359) | 94 % | 96 % |
| Investment revenue | 1,300,000 | 200,000 | 1,500,000 | - | | 1,500,000 | 3,898,725 | | 2,398,725 | 260 % | 300 % |
| Transfers recognised - operational | 169,841,880 | - | 169,841,880 | - | | 169,841,880 | 168,743,303 | | (1,098,577) | 99 % | 99 % |
| Other own revenue | 66,637,020 | 928,500 | 67,565,520 | - | | 67,565,520 | 59,073,096 | | (8,492,424) | 87 % | 89 % |
| Total revenue (excluding capital transfers and contributions) | 1,105,405,990 | 15,549,360 | 1,120,955,350 | - | | 1,120,955,350 | 1,073,845,277 | | (47,110,073) | 96 % | 97 % |
| Employee costs | (307,178,430) | (13,993,500) | (321,171,930) | - | - | (321,171,930) | (288,617,758) | - | 32,554,172 | 90 % | 94 % |
| Remuneration of councillors | (18,105,160) | (434,350) | (18,539,510) | - | - | (18,539,510) | (17,554,110) | - | 985,400 | 95 % | 97 % |
| Debt impairment | (117,921,150) | (8,195,380) | (126,116,530) | | | (126,116,530) | (168,448,196) | - | (42,331,666) | 134 % | 143 % |
| Depreciation and asset impairment | (67,920,380) | 1,815,440 | (66,104,940) | | | (66,104,940) | (72,118,140) | - | (6,013,200) | 109 % | 106 % |
| Finance charges | (2,714,950) | (300,000) | (3,014,950) | - | - | (3,014,950) | (8,063,255) | - | (5,048,305) | 267 % | 297 % |
| Materials and bulk purchases | (386,319,190) | (4,747,400) | (391,066,590) | - | - | (391,066,590) | (397,279,610) | - | (6,213,020) | 102 % | 103 % |
| Transfers and grants | (1,040,500) | 582,000 | (458,500) | - | - | (458,500) | (296,533) | - | 161,967 | 65 % | 28 % |
| Other expenditure | (191,630,120) | 4,652,150 | (186,977,970) | - | - | (186,977,970) | (152,751,669) | - | 34,226,301 | 82 % | 80 % |
| Total expenditure | (1,092,829,880) | (20,621,040) | (1,113,450,920) | - | - | (1,113,450,920) | (1,105,129,271) | - | 8,321,649 | 99 % | 101 % |
| Surplus/(Deficit) | 12,576,110 | (5,071,680) | 7,504,430 | - | | 7,504,430 | (31,283,994) | | (38,788,424) | (417)% | (249)% |

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Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|--------------------|---|--------------------------|--|---|--------------------|-------------------|--------------------------|---------------------|-------------------------------------|--|
| Transfers recognised - capital | 108,246,700 | - | 108,246,700 | - | | 108,246,700 | 100,429,762 | | (7,816,938) | 93 % | 93 % |
| Contributions recognised - capital and contributed assets | - | 12,755,840 | 12,755,840 | - | | 12,755,840 | 27,859,519 | | 15,103,679 | 218 % | DIV/0 % |
| Surplus (Deficit) after capital transfers and contributions | 120,822,810 | 7,684,160 | 128,506,970 | - | | 128,506,970 | 97,005,287 | | (31,501,683) | 75 % | 80 % |
| Surplus/(Deficit) for the year | 120,822,810 | 7,684,160 | 128,506,970 | - | | 128,506,970 | 97,005,287 | | (31,501,683) | 75 % | 80 % |

Capital expenditure and funds sources

| | | | | | | | | | | | |
|---------------------------------------|--------------------|----------------------|--------------------|----------|--|--------------------|-------------------|--|----------------------|-------------|------------|
| Total capital expenditure | 777,867,800 | (625,480,160) | 152,387,640 | - | | 152,387,640 | 163,447,458 | | 11,059,818 | 107 % | 21 % |
| Sources of capital funds | | | | | | | | | | | |
| Transfers recognised - capital | 747,246,700 | (639,000,000) | 108,246,700 | - | | 108,246,700 | - | | (108,246,700) | - % | - % |
| Public contributions and donations | 2,500,000 | 12,755,840 | 15,255,840 | - | | 15,255,840 | 17,552,676 | | 2,296,836 | 115 % | 702 % |
| Borrowing | - | 6,000,000 | 6,000,000 | - | | 6,000,000 | - | | (6,000,000) | - % | DIV/0 % |
| Internally generated funds | 28,121,100 | (5,236,000) | 22,885,100 | - | | 22,885,100 | - | | (22,885,100) | - % | - % |
| Total sources of capital funds | 777,867,800 | (625,480,160) | 152,387,640 | - | | 152,387,640 | 17,552,676 | | (134,834,964) | 12 % | 2 % |

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Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|-------------------|---|--------------------------|--|---|-------------------|--------------------|--------------------------|---------------------|-------------------------------------|--|
| Cash flows | | | | | | | | | | | |
| Net cash from (used) operating | 101,446,000 | 43,872,000 | 145,318,000 | - | | 145,318,000 | 68,618,891 | | (76,699,109) | 47 % | 68 % |
| Net cash from (used) investing | (96,168,000) | (40,964,000) | (137,132,000) | - | | (137,132,000) | (71,024,943) | | 66,107,057 | 52 % | 74 % |
| Net cash from (used) financing | (5,511,000) | 11,701,000 | 6,190,000 | - | | 6,190,000 | (4,759,649) | | (10,949,649) | (77)% | 86 % |
| Net increase/(decrease) in cash and cash equivalents | (233,000) | 14,609,000 | 14,376,000 | - | | 14,376,000 | (7,165,701) | | (21,541,701) | (50)% | 3,075 % |
| Cash and cash equivalents at the beginning of the year | 12,628,000 | 8,415,000 | 21,043,000 | - | | 21,043,000 | 21,042,894 | | (106) | 100 % | 167 % |
| Cash and cash equivalents at year end | 12,395,000 | 23,024,000 | 35,419,000 | - | | 35,419,000 | 13,877,193 | | 21,541,807 | 39 % | 112 % |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rands. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Loans and receivables

The municipality assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is first for individually significant loans and receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and poor payment history/default of payments are all considered indicators of impairment.

For loans and receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's or receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided.

The write down is included in surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

Impairment testing

The recoverable amounts of potentially impaired cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the selling price assumptions may change, for example, which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Value in use of cash-generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest rates.

Value in use of non-cash-generating assets

The municipality reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Internally generated intangible assets and intangible assets with an indefinite useful life are tested for impairment on an annual basis.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

The present value of the post-retirement and long-term obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement and long-term obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

| Item | Useful life |
|----------------------|-------------|
| Property - buildings | 50 years |
| Property - land | Indefinite |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Metsimaholo Local Municipality

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Accounting Policies

1.4 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Range of useful life |
|------------------|---------------------|----------------------|
| Community assets | Straight-line | 50 years |

Metsimaholo Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

| | | |
|--------------------------------|---------------|--------------|
| Furniture and office equipment | Straight-line | 3 - 30 years |
| Infrastructure | Straight-line | 3 - 50 years |
| IT equipment | Straight-line | 3 - 10 years |
| Land | | Indefinite |
| Motor vehicles | Straight-line | 3 - 20 years |
| Plant and machinery | Straight-line | 3 - 15 years |

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the annual financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development in the notes to the annual financial statements, which include: the cumulative expenditure recognised in the carrying value of an item of property, plant and equipment; the carrying value of an item of property, plant and equipment that is taking a significantly longer period of time to complete than expected; and the carrying value of an item of property, plant and equipment where construction or development has been halted (see note 10).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on Impairment of cash-generating assets and/or Impairment of non-cash-generating assets.

1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software as intangible assets.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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Accounting Policies

1.7 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight-line basis over the expected useful lives of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimate change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Amortisation is provided to write down the intangible assets, on a straight-line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

| Item | Depreciation method | Range of useful life |
|-------------------|---------------------|----------------------|
| Computer software | Straight-line | 5 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The municipality has classified a site of historical significance and council regalia as heritage assets.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 - Heritage assets.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement, classes of heritage assets are carried at cost less any accumulated impairment losses.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.8 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of a cash-generating asset's or cash-generating unit's fair value less costs to sell and its value in use.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows: the current profitability of the unit, as well as management's assessment of the possibility of a unit becoming profitable.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use, the municipality:

- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments, where applicable.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the government bond rate and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows: consideration is given to the nature of the asset, whether it is primarily to provide a service to the community, and whether there is any realistic possibility of the asset being used in a commercial and profitable manner.

Metsimaholo Local Municipality

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Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Metsimaholo Local Municipality

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Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Metsimaholo Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|--|--|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Other financial assets | Financial asset measured at fair value |

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|--|
| Consumer deposits | Financial liability measured at amortised cost |
| Finance lease obligation | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Other financial liabilities | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

Metsimaholo Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Discounting of short-term receivables and payables

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Metsimaholo Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Metsimaholo Local Municipality

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Accounting Policies

1.12 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts is recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value or current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Metsimaholo Local Municipality

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Accounting Policies

1.13 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.14 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

1.15 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the Value-added Tax Act (Act No. 89 of 1991).

1.16 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Metsimaholo Local Municipality

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Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Metsimaholo Local Municipality

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Accounting Policies

1.16 Employee benefits (continued)

Defined benefit plans

Defined benefit plans are long-term benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

No plan assets are held.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Metsimaholo Local Municipality

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Accounting Policies

1.16 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligation.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

1.17 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.17 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on Impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Metsimaholo Local Municipality

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Accounting Policies

1.18 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.19 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.20 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of property rates (taxes) when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners. The debt is written off and recognised as an expense.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

The municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

1.21 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the event giving rise to the transfer has occurred.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 48 - Unauthorised expenditure.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 49 - Fruitless and wasteful expenditure.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality's supply chain management policy.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 50 - Irregular expenditure.

1.27 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are made in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases. Refer to note 41 - Commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.28 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.29 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that municipality's legal mandate.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 44 - Comparative figures.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12).
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12) and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12) and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued and to clarify acceptable methods of depreciating assets. To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology. To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 21 (as amended 2016): Impairment of Non-cash-generating Assets

Amendments to the Standard of GRAP on Impairment of Non-cash-generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 26 (as amended 2016): Impairment of Cash-generating Assets

Amendments Changes to the Standard of GRAP on Impairment of Cash-generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12) and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued and to clarify acceptable methods of depreciating assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12). To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that:

- (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making;
- (b) using fair value in certain instances was inappropriate; and
- (c) some of the existing accounting requirements were seen as too rules based.

As a result, the IASB amended its existing Standards to deal with these issues. The IASB issued the IFRS Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to the IFRS Standard on Financial Instruments: Presentation (IAS 32) and the IFRS Standard on Financial Instruments: Disclosures (IFRS 7). The IPSASB issued revised IPSASs in June 2018 so as to align them with the equivalent IFRS Standards.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- financial guarantee contracts issued;
- loan commitments issued;
- classification of financial assets;
- amortised cost of financial assets;
- impairment of financial assets; and
- disclosures.

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline on Accounting for Landfill Sites

The Constitution of the Republic of South Africa, gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology and References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

The impact of this guideline is currently being assessed.

Guideline on the Application of Materiality to Financial Statements

The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP and References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An entity should apply judgement based on past experience and current facts and circumstances in the identification of significant accounting policies.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020/2021 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued and to clarify acceptable methods of depreciating assets. To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity should apply judgement based on past experience and current facts and circumstances in determining the amount of revenue to be recognised.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

The municipality is unable to reliably estimate the impact of the interpretation on the annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this Guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act (Act No. 107 of 1997) provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

The municipality expects to adopt the guideline for the first time in the 2019/2020 annual financial statements.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010.

An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24.

An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52.

An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the ASB in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
 - GRAP 105 Transfer of Functions Between Entities Under Common Control;
 - GRAP 107 Mergers.
- Consequential amendments arising from GRAP 110 Living and Non-living Resources issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
 - GRAP 34 Separate Financial Statements;
 - GRAP 35 Consolidated Financial Statements;
 - GRAP 36 Investments in Associates and Joint Ventures;
 - GRAP 37 Joint Arrangements;
 - GRAP 38 Disclosure of Interests in Other Entities.

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019 as far as the amendments relate to GRAP 105 and 107 and 01 April 2020 as far as the amendments relate to GRAP 110, 34-38.

The municipality expects to adopt the directive for the first time in the 2019/2020 annual financial statements.

It is unlikely that the directive will have a material impact on the municipality's annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 20: Related Parties

The objective of this Standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

The Standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which:

- (a) the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and
- (b) the operator is compensated for its services over the period of the service concession arrangement.

It furthermore covers: Definitions, Recognition and measurement of a service concession asset, Recognition and measurement of liabilities, other liabilities, contingent liabilities, contingent assets and other revenues, Presentation and disclosure, Transitional provisions, and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106 (as amended 2016): Transfers of Functions Between Entities not Under Common Control

The subsequent amendments to the Standard resulted from changes made to IFRS 3 on Business Combinations as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the amendment for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to prescribe accounting requirements for statutory receivables.

Statutory receivables are receivables that:

- (a) arise from legislation, supporting regulations, or similar means; and
- (b) require settlement by another entity in cash or another financial asset.

It furthermore covers: Definitions, Recognition, Derecognition, Measurement, Presentation and disclosure, Transitional provisions, and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers: Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation and disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 11: Consolidation – Special Purpose Entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (i.e. they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This Interpretation does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to a SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation may mean that the entity should consolidate the SPE. This Interpretation does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP 105, 106 and 107.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 12: Jointly Controlled Entities – Non-monetary Contributions by Ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP 105, 106 and 107.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property, Property, Plant and Equipment, or Heritage Assets. As this Interpretation does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of this interpretation is currently being assessed.

IGRAP 19: Liabilities to Pay Levies

This Interpretation provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

- what is the obligating event that gives rise to the recognition of a liability to pay a levy?
- does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- what is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- the preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation; and
- an entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 20: Accounting for Adjustments to Revenue

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

As per the background to this Interpretation, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The Interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

The impact of this interpretation is currently being assessed.

3. Inventories

| | | |
|--|------------------|-------------------|
| Water (purified water in reservoirs and pipes) | 658,664 | 553,639 |
| Housing Stock | 17,000,843 | 17,000,843 |
| Fuel (diesel, petrol) | 270,488 | 52,144 |
| Stores and materials | 538,281 | 794,857 |
| Inventories transferred | (17,000,843) | - |
| | 1,467,433 | 18,401,483 |

After the inventory count, an amount of R 193 720 (2018: 543 063) was written off.

3.1 Movement of housing stock

| | | |
|---|--------------|-------------------|
| Opening balance | 17,000,843 | 13,164,043 |
| Additional stands transfer to housing stock | - | 3,921,800 |
| Registered in name of owner and remove from housing stock | - | (85,000) |
| Transfer to Investment property | (17,000,843) | - |
| | - | 17,000,843 |

| | | |
|--|-----------|-----------|
| Inventories recognised as an expense during the year | 4,352,000 | 1,354,389 |
|--|-----------|-----------|

Inventory pledged as security

During the year no inventory was pledged as security.

4. Other financial assets

Designated at fair value

| | | |
|-----------------------|-----------|-----------|
| Listed shares | 3,603,880 | 3,230,858 |
| 2019: 46 109 @ R78.16 | | |
| 2018: 46 109 @ R70.07 | | |

At amortised cost

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|----------------------|----------------------|
| 4. Other financial assets (continued) | | |
| Investment - ceded | 36,477 | 34,553 |
| Total other financial assets | 3,640,357 | 3,265,411 |
| Current assets | | |
| At fair value | 3,603,880 | 3,230,858 |
| At amortised cost | 36,477 | 34,553 |
| | 3,640,357 | 3,265,411 |
| Financial assets at fair value | | |
| Fair values of financial assets measured or disclosed at fair value | | |
| Sanlam Limited shares | 3,603,880 | 3,230,858 |
| Valued with reference to the ruling price of the share (being listed on a public exchange) at year end. | | |
| Fair value hierarchy of financial assets at fair value | | |
| Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets. | | |
| The municipality received shares in Sanlam Limited in a prior year. | | |
| Level 1 | | |
| Sanlam Limited shares | 3,603,880 | 3,230,858 |
| Financial assets at amortised cost | | |
| Nominal value of financial assets at amortised cost | | |
| Investment - ceded | 36,477 | 34,553 |
| This investment was ceded to FNB as collateral for housing loan of employee. The investment may be held in perpetuity, and is invested in a financial institution with a strong credit rating (First National Bank Pty Ltd), therefore, this is not considered impaired. | | |
| 5. Receivables from exchange transactions | | |
| Electricity | 55,994,705 | 48,572,522 |
| Water | 162,403,422 | 128,621,652 |
| Sewerage | 10,848,071 | 8,142,992 |
| Refuse | 13,445,823 | 10,546,765 |
| Sale of land | 1,643,807 | 363,681 |
| | 244,335,828 | 196,247,612 |
| Non-current assets | 1,643,807 | 363,681 |
| Current assets | 242,692,021 | 195,883,931 |
| | 244,335,828 | 196,247,612 |
| Reconciliation of provision for impairment of trade and other receivables | | |
| Opening balance | (758,611,273) | (646,804,881) |
| Provision for impairment | (145,703,053) | (112,081,622) |
| Amounts written off as uncollectible | 42,399,543 | 275,230 |
| | (861,914,783) | (758,611,273) |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|--------------------|-------------------|
| 6. Receivables from non-exchange transactions | | |
| Traffic fines | 462,210 | 2,309,034 |
| Deposits | 2,052,824 | 1,926,115 |
| Prepaid electricity payments | 4,787,039 | 4,128,615 |
| Receivables | 19,668,576 | 7,513,958 |
| Rates | 67,960,937 | 55,752,556 |
| Sundry receivables | 22,372,072 | 15,693,893 |
| | 117,303,658 | 87,324,171 |

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Receivables from non-exchange transactions

None of the financial assets that are fully performing have been renegotiated in the last year.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 90,333,009 (2018: R71 446 449 -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|-------------------|------------|------------|
| 1 month past due | 5,343,876 | 4,596,437 |
| 2 months past due | 2,703,002 | 6,858,984 |
| 3 months past due | 71,948,706 | 51,584,984 |

Receivables from non-exchange transactions impaired

As of 30 June 2019, receivables from non-exchange transactions of R 185,876,938 (2018: R 174,279,761) were impaired and provided for.

The amount of the provision was R 19,823,338 as of 30 June 2019 (2018: R38 155 143).

The ageing of these receivables is as follows:

Reconciliation of allowance for impairment of receivables from non-exchange transactions

| | | |
|---|----------------------|----------------------|
| Opening balance | (174,279,761) | (138,121,583) |
| Allowance for impairment traffic fines | (2,000,000) | (7,025,858) |
| Amounts written off as uncollectible traffic fines | - | 8,969,009 |
| Allowance for impairment sundry debtors | (8,794,308) | (26,605,095) |
| Amounts written off as uncollectible sundry debtors | 3,343,627 | - |
| Allowance for impairment rates | (9,029,030) | (11,550,048) |
| Amounts written off as uncollectible Rates | 4,882,534 | 53,814 |
| | (185,876,938) | (174,279,761) |

The municipality does not hold any collateral as security.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|------------------------|----------------------|
| 7. Consumer debtors disclosure | | |
| Gross balances | | |
| Rates | 146,693,601 | 130,338,724 |
| Electricity | 92,642,894 | 88,396,812 |
| Water | 889,021,372 | 751,904,585 |
| Sewerage | 48,446,124 | 44,869,451 |
| Refuse | 69,712,717 | 63,491,152 |
| Sale of land | 6,427,504 | 6,196,885 |
| Consumer debtors - Other (Specified) | 120,490,488 | 108,361,628 |
| | 1,373,434,700 | 1,193,559,237 |
| Less: Allowance for impairment | | |
| Rates | (78,732,664) | (74,586,168) |
| Electricity | (36,648,189) | (39,824,290) |
| Water | (726,617,950) | (623,282,933) |
| Sewerage | (37,598,053) | (36,726,459) |
| Refuse | (56,266,894) | (52,944,387) |
| Sale of land | (4,783,697) | (5,833,204) |
| Sundry receivables | (98,118,416) | (92,667,735) |
| | (1,038,765,863) | (925,865,176) |
| Net balance | | |
| Rates | 67,960,937 | 55,752,556 |
| Electricity | 55,994,705 | 48,572,522 |
| Water | 162,403,422 | 128,621,652 |
| Sewerage | 10,848,071 | 8,142,992 |
| Refuse | 13,445,823 | 10,546,765 |
| Sale of land | 1,643,807 | 363,681 |
| Sundry receivables | 22,372,072 | 15,693,893 |
| | 334,668,837 | 267,694,061 |
| Included in above is receivables from exchange transactions | | |
| Electricity | 55,994,705 | 48,572,522 |
| Water | 162,403,422 | 128,621,652 |
| Sewerage | 10,848,071 | 8,142,992 |
| Refuse | 13,445,823 | 10,546,765 |
| Sale of land | 1,643,807 | 363,681 |
| | 244,335,828 | 196,247,612 |
| Included in above is receivables from non-exchange transactions (taxes and transfers) | | |
| Rates | 67,960,937 | 55,752,556 |
| Sundry receivables | 22,372,072 | 15,693,893 |
| | 90,333,009 | 71,446,449 |
| Net balance | 334,668,837 | 267,694,061 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 7. Consumer debtors disclosure (continued) | | |
| Rates | | |
| Current (0 -30 days) | 9,934,679 | 9,302,723 |
| 31 - 60 days | 6,134,178 | 5,578,122 |
| 61 - 90 days | 3,681,168 | 14,678,639 |
| Over 90 days | 126,943,576 | 100,779,240 |
| Impairment | (78,732,664) | (74,586,168) |
| | 67,960,937 | 55,752,556 |
| Electricity | | |
| Current (0 -30 days) | 20,601,349 | 17,397,461 |
| 31 - 60 days | 3,439,777 | 4,860,350 |
| 61 - 90 days | 2,832,014 | 3,870,288 |
| Over 90 days | 65,769,754 | 62,268,713 |
| Impairment | (36,648,189) | (39,824,290) |
| | 55,994,705 | 48,572,522 |
| Water | | |
| Current (0 -30 days) | 59,874,465 | 49,551,879 |
| 31 - 60 days | 28,341,360 | 20,287,094 |
| 61 - 90 days | 17,520,088 | 15,434,245 |
| Over 90 days | 783,285,460 | 666,631,367 |
| Impairment | (726,617,951) | (623,282,933) |
| | 162,403,422 | 128,621,652 |
| Sewerage | | |
| Current (0 -30 days) | 2,062,626 | 1,654,557 |
| 31 - 60 days | 1,402,290 | 1,369,869 |
| 61 - 90 days | 1,089,013 | 950,684 |
| Over 90 days | 43,892,195 | 40,894,341 |
| Impairment | (37,598,053) | (36,726,459) |
| | 10,848,071 | 8,142,992 |
| Refuse | | |
| Current (0 -30 days) | 2,743,214 | 2,537,476 |
| 31 - 60 days | 1,845,370 | 1,669,432 |
| 61 - 90 days | 1,518,416 | 1,321,535 |
| Over 90 days | 63,605,716 | 57,962,709 |
| Impairment | (56,266,893) | (52,944,387) |
| | 13,445,823 | 10,546,765 |
| Sale of land | | |
| Current (0 -30 days) | 226,757 | 50,691 |
| 31 - 60 days | 30,483 | 82,876 |
| 61 - 90 days | 25,402 | 10,323 |
| Over 90 days | 6,144,862 | 6,052,995 |
| Impairment | (4,783,697) | (5,833,204) |
| | 1,643,807 | 363,681 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|----------------------|----------------------|
| 7. Consumer debtors disclosure (continued) | | |
| Sundry receivables | | |
| Current (0 -30 days) | 2,945,093 | 2,185,543 |
| 31 - 60 days | 2,262,281 | 1,929,945 |
| 61 - 90 days | 1,152,444 | 1,201,841 |
| Over 90 days | 114,130,670 | 103,044,299 |
| Impairment | (98,118,416) | (92,667,735) |
| | 22,372,072 | 15,693,893 |
| Summary of debtors by customer classification | | |
| Consumers | | |
| Current (0 -30 days) | 83,574,387 | 61,891,239 |
| 31 - 60 days | 27,165,335 | 25,960,476 |
| 61 - 90 days | 21,302,983 | 29,323,537 |
| 91 - 120 days | 967,341,355 | 844,911,187 |
| | 1,099,384,060 | 962,086,439 |
| Industrial/ commercial | | |
| Current (0 -30 days) | 27,959,086 | 15,886,610 |
| 31 - 60 days | 10,982,594 | 6,043,729 |
| 61 - 90 days | 3,696,364 | 4,432,880 |
| 91 - 120 days | 74,812,246 | 61,981,092 |
| | 117,450,290 | 88,344,311 |
| National and provincial government | | |
| Current (0 -30 days) | 3,561,621 | 2,668,254 |
| 31 - 60 days | 1,104,050 | 1,760,662 |
| 61 - 90 days | 750,511 | 2,498,974 |
| 91 - 120 days | 24,266,176 | 21,642,084 |
| | 29,682,358 | 28,569,974 |
| Total | | |
| Current (0 -30 days) | 95,216,334 | 80,988,782 |
| 31 - 60 days | 41,162,975 | 33,764,867 |
| 61 - 90 days | 26,640,698 | 36,255,391 |
| 91 - 120 days | 1,083,496,700 | 928,536,370 |
| | 1,246,516,707 | 1,079,545,410 |
| Less: Allowance for impairment | | |
| Current (0 -30 days) | 20,504,747 | 16,343,590 |
| 31 - 60 days | 20,406,355 | 17,417,455 |
| 61 - 90 days | 16,749,446 | 23,500,023 |
| 91 - 120 days | 878,203,202 | 770,103,168 |
| | 935,863,750 | 827,364,236 |
| Total debtor past due but not impaired | | |
| Current (0 -30 days) | 74,711,587 | 64,645,192 |
| 31 - 60 days | 20,756,621 | 16,347,412 |
| 61 - 90 days | 9,891,252 | 12,755,368 |
| 91 - 120 days | 205,293,498 | 158,433,202 |
| | 310,652,958 | 252,181,174 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|------------------------|----------------------|
| 7. Consumer debtors disclosure (continued) | | |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (925,865,175) | (775,957,454) |
| Contributions to allowance | (163,526,391) | (150,236,765) |
| Debt impairment written off against allowance | 50,625,704 | 329,044 |
| | (1,038,765,862) | (925,865,175) |
| Collection rate of consumer receivables | | |
| If collection rate per service is not determinable include here the overall collection rate | 69 % | 76 % |
| 8. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 5,150 | 5,150 |
| Bank balances | 8,845,699 | 2,671,048 |
| Short-term deposits | 5,026,344 | 18,366,696 |
| | 13,877,193 | 21,042,894 |
| Funds reserved to support unspent grants | | |
| Department of Co-operative Governance | 704,984 | 704,984 |
| SCI | 79,057 | 79,057 |
| Department of Water and sanitation WSIG | - | 2,947,684 |
| Department of Water and sanitation RBIG | (9,577,573) | (2,654,497) |
| Department of Energy | 8,360,979 | 510,480 |
| Public Works Program | - | 84,773 |
| Municipal Infrastructure Grant | - | (90) |
| | (432,553) | 1,672,391 |
| Cash and cash equivalents pledged as collateral | | |
| Total financial assets pledged as collateral for Guarantee: Eskom as electricity deposits | 990,000 | 990,000 |
| Total financial assets pledged as collateral for Guarantee: Post Office as postal deposits | 80,000 | 80,000 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

8. Bulk purchases (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | 30 June 2019 | 30 June 2018 | 30 June 2017 | 30 June 2019 | 30 June 2018 | 30 June 2017 |
| Absa Bank Cheque Account 520 0000 038 | 1,448,695 | 1,278,369 | 635,473 | 1,448,695 | 1,278,369 | 635,472 |
| Absa Bank | - | - | - | (1,105) | - | - |
| Standard Bank - current account (primary bank account) 24 034 786 2 | 12,200,971 | 6,228,940 | 4,988,001 | 7,398,109 | 1,401,477 | 4,610,519 |
| Standard Bank - Revenue Account - 33 197 836 9 | - | - | - | - | (8,798) | - |
| Absa Bank - Call Account 907 840 0708 | 255,309 | 402,455 | 1,154,993 | 255,309 | 1,055,309 | 1,154,993 |
| Absa Bank -Fixed deposit 20-7741-7824 | - | 62,772 | - | - | - | - |
| Absa Bank -Fixed deposit 20-7741-7072 | - | 77,121 | - | - | - | - |
| Standard Bank - Call deposit account 228 505 348 005 | 9,756 | 6,529,042 | 109,045 | 21,474 | 12,863,554 | 109,045 |
| Standard Bank - Call deposit account - 228 505 348 007 | 334,286 | 6,658,318 | 323,807 | 382,264 | 323,806 | 323,806 |
| Nedbank - Call deposit account -788 103 308 000060 | 927,095 | 11,954 | 1,073,095 | 1,461,328 | 1,461,328 | 1,073,095 |
| Nedbank - Call deposit account -788 103 308 000074 | 534,233 | 42,128 | - | - | - | - |
| Investec -Call account- 1100-523923 | 709,205 | 2,634,973 | 4,687,789 | 709,205 | 2,634,974 | 4,687,789 |
| Rand merchant Bank CDS - DC02J00005 | - | 27,726 | 27,726 | - | 27,726 | 27,726 |
| FNB - Call account - 62772878909 | 2,196,764 | - | - | 2,196,764 | - | - |
| Total | 18,616,314 | 23,953,798 | 12,999,929 | 13,872,043 | 21,037,745 | 12,622,445 |

9. Investment property

| | 2019 | | | 2018 | | |
|--------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land and buildings | 295,781,938 | (581,102) | 295,200,836 | 278,781,094 | (560,462) | 278,220,632 |

Reconciliation of investment property - 2019

| | Opening balance | Transfers | Depreciation | Total |
|--------------------|-----------------|------------|--------------|-------------|
| Land and buildings | 278,220,632 | 17,003,223 | (23,019) | 295,200,836 |

Reconciliation of investment property - 2018

| | Opening balance | Transfers to inventories | Depreciation | Total |
|--------------------|-----------------|--------------------------|--------------|-------------|
| Land and buildings | 280,082,652 | (1,839,000) | (23,020) | 278,220,632 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

9. Investment property (continued)

Pledged as security

No investment property was pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

| | 2019 | | | 2018 | | |
|------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Leasehold property | 9,607,366 | (4,791,740) | 4,815,626 | 11,889,825 | (1,206,613) | 10,683,212 |
| Plant and machinery | 33,978,331 | (13,440,203) | 20,538,128 | 18,491,446 | (11,367,344) | 7,124,102 |
| Furniture and fixtures | 8,550,584 | (7,084,869) | 1,465,715 | 24,988,371 | (20,279,328) | 4,709,043 |
| Motor vehicles | 48,501,334 | (28,221,111) | 20,280,223 | 35,999,191 | (25,169,494) | 10,829,697 |
| Office equipment | - | 38,383 | 38,383 | - | - | - |
| IT equipment | 33,920,056 | (29,634,074) | 4,285,982 | 38,429,107 | (29,777,570) | 8,651,537 |
| Infrastructure | 2,308,843,429 | (1,306,036,512) | 1,002,806,917 | 2,213,961,336 | (1,262,054,067) | 951,907,269 |
| Community | 406,944,109 | (71,078,830) | 335,865,279 | 435,114,480 | (69,453,999) | 365,660,481 |
| Total | 2,850,345,209 | (1,460,248,956) | 1,390,096,253 | 2,778,873,756 | (1,419,308,415) | 1,359,565,341 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

| | Opening balance | Additions | Additions through donations | Disposals | Transfers received | Transfers | Change in estimate of landfill rehabilitation | Depreciation | Total |
|------------------------|----------------------|-------------------|-----------------------------------|---------------------|-----------------------|-------------|--|---------------------|----------------------|
| Buildings | 100,914,168 | - | - | - | - | - | - | (2,872,295) | 98,041,873 |
| Furniture and fixtures | 4,709,043 | 78,285 | - | (1,400,406) | 228,106 | 42 | - | (2,149,355) | 1,465,715 |
| Infrastructure | 991,347,230 | 79,231,793 | 23,652,636 | (28,603,100) | 5,498,928 | - | 1,275,202 | (58,841,235) | 1,013,561,454 |
| Land | 221,609,522 | - | - | - | - | - | - | - | 221,609,522 |
| Plant and machinery | 7,124,102 | 7,053,332 | - | (4,214) | 8,533,723 | 53,344 | - | (2,222,159) | 20,538,128 |
| Motor vehicles | 14,519,527 | 2,492,195 | 4,206,883 | 271,232 | 548,730 | 1,408,306 | - | (3,166,650) | 20,280,223 |
| Office equipment | - | - | - | - | 38,383 | - | - | - | 38,383 |
| IT equipment | 8,651,537 | 395,506 | - | (412,328) | 297,518 | (304,012) | - | (1,643,040) | 6,985,181 |
| Leasehold property | 10,683,212 | - | - | - | (1,685,989) | (1,157,680) | - | (263,769) | 7,575,774 |
| | 1,359,558,341 | 89,251,111 | 27,859,519 | (30,148,816) | 13,459,399 | - | 1,275,202 | (71,158,503) | 1,390,096,253 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Additions through donations | Disposals and asset adjustments | Transfers received | Transfers | Transfers to inventory | Change in estimate of landfill rehabilitation | Other changes, movements | Depreciation | Total |
|------------------------|----------------------|------------------|-----------------------------------|---------------------------------------|-----------------------|-----------|---------------------------|--|--------------------------------|---------------------|----------------------|
| Buildings | 94,924,137 | - | - | - | 11,093,876 | 685 | (2,082,799) | - | - | (3,021,731) | 100,914,101 |
| Furniture and fixtures | 6,414,801 | 422,197 | - | (23,884) | - | - | - | - | - | (2,104,071) | 4,709,043 |
| Infrastructure | 966,941,223 | 2,469,110 | 9,798,243 | 2,519,013 | 72,362,855 | (902,623) | - | (3,689,830) | (236) | (58,150,525) | 991,347,273 |
| Land | 221,609,522 | - | - | - | - | - | - | - | - | - | 221,609,522 |
| Plant and machinery | 6,881,725 | 720,587 | 1,347,848 | (10,133) | - | - | - | - | - | (1,815,925) | 7,124,102 |
| Motor vehicles | 16,227,287 | - | 1,825,617 | (319,109) | - | - | - | - | - | (3,214,268) | 14,519,527 |
| IT equipment | 12,314,470 | 227,965 | - | (22,493) | - | - | - | - | - | (3,868,405) | 8,651,537 |
| Leasehold property | 10,024,991 | 870,070 | - | - | - | 901,938 | - | - | - | (1,113,787) | 10,683,212 |
| | 1,335,338,156 | 4,709,929 | 12,971,708 | 2,143,394 | 83,456,731 | - | (2,082,799) | (3,689,830) | (236) | (73,288,712) | 1,359,558,353 |

Pledged as security

None of the above property, plant and equipment have been pledged as security, other than obligations under finance leases that are secured by lessor's charge over the leased assets - refer to note: 15

| | | |
|------------------|-----------|-----------|
| Motor vehicles | 7,895,610 | 8,994,187 |
| Office equipment | 581,188 | 787,087 |

Assets subject to finance lease (Net carrying amount)

| | | |
|--------------------|------------------|-------------------|
| Leasehold property | 4,815,626 | 10,683,212 |
| IT equipment | (702,366) | - |
| Infrastructure | (207,895) | - |
| | 3,905,365 | 10,683,212 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

| | Included within Infrastructure | Included within Community | Included within Other PPE | Total |
|--------------------------------|--------------------------------|---------------------------|---------------------------|--------------------|
| Opening balance | 295,770,246 | 19,520,953 | 4,421,285 | 319,712,484 |
| Additions/capital expenditure | 1 | - | - | 1 |
| Transferred to completed items | (1) | - | - | (1) |
| | 295,770,246 | 19,520,953 | 4,421,285 | 319,712,484 |

Reconciliation of Work-in-Progress 2018

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance | 352,758,012 | 8,427,077 | 361,185,089 |
| Additions/capital expenditure | 70,852,715 | 11,093,876 | 81,946,591 |
| Transferred to completed items | (127,840,481) | - | (127,840,481) |
| | 295,770,246 | 19,520,953 | 315,291,199 |

Maintenance of property, plant and equipment

A total of RA register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

| | 2019 | | | 2018 | | |
|-------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 5,060,657 | (2,528,475) | 2,532,182 | 5,088,176 | (1,603,505) | 3,484,671 |

Reconciliation of intangible assets - 2019

| | Opening balance | Disposals | Transfers | Amortisation | Total |
|-------------------|-----------------|-----------|-----------|--------------|-----------|
| Computer software | 3,484,671 | (27,519) | 11,648 | (936,618) | 2,532,182 |

Reconciliation of intangible assets - 2018

| | Opening balance | Amortisation | Total |
|-------------------|-----------------|--------------|-----------|
| Computer software | 4,421,285 | (936,614) | 3,484,671 |

Pledged as security

No intangible assets were pledged as security.

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Metsimaholo Local Municipality

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|-----------------|------|------|
|-----------------|------|------|

12. Heritage assets

| | 2019 | | | 2018 | | |
|----------------------|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Historical monuments | 561,000 | - | 561,000 | 561,000 | - | 561,000 |
| Mayoral chain | 1 | - | 1 | 1 | - | 1 |
| Total | 561,001 | - | 561,001 | 561,001 | - | 561,001 |

Reconciliation of heritage assets 2019

| | Opening balance | Total |
|----------------------|--------------------|----------------|
| Historical monuments | 561,000 | 561,000 |
| Mayoral Chain | 1 | 1 |
| | 561,001 | 561,001 |

Reconciliation of heritage assets 2018

| | Opening balance | Transfers | Total |
|----------------------|--------------------|-----------|----------------|
| Historical monuments | 561,001 | (1) | 561,000 |
| Mayoral Chain | - | 1 | 1 |
| | 561,001 | - | 561,001 |

Pledged as security

No heritage assets were pledged as security.

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

13. Payables from exchange transactions

| | | |
|--------------------------------|--------------------|--------------------|
| Accrued bonus | 5,617,710 | 5,090,241 |
| Accrued expense | 92,708,115 | 109,205,472 |
| Accrued leave pay | 19,479,719 | 17,937,481 |
| Eskom | 31,072,574 | 29,870,978 |
| Insurance | 1,397,383 | 1,248,816 |
| Other payables Auditor General | 402,877 | 12,482 |
| Payments received in advanced | 23,970,866 | 25,141,907 |
| Rand Water | 15,211,951 | 11,833,750 |
| Retention | 19,611,983 | 17,150,466 |
| Trade payables | 7,917,817 | 6,608,078 |
| Unallocated deposits | 5,270,132 | 2,826,224 |
| | 222,661,127 | 226,925,895 |

14. VAT payable

| | | |
|-------------|------------|-----------|
| VAT payable | 14,749,690 | 3,010,678 |
|-------------|------------|-----------|

Metsimaholo Local Municipality

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|--|------------------|-------------------|
| 15. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 3,920,333 | 4,163,802 |
| - in second to fifth year inclusive | 4,079,191 | 7,999,524 |
| | 7,999,524 | 12,163,326 |
| less: future finance charges | (823,898) | (1,729,936) |
| Present value of minimum lease payments | 7,175,626 | 10,433,390 |
| Present value of minimum lease payments due | | |
| - within one year | 3,347,596 | 3,257,767 |
| - in second to fifth year inclusive | 3,828,030 | 7,175,623 |
| | 7,175,626 | 10,433,390 |
| Non-current liabilities | 3,828,028 | 7,175,623 |
| Current liabilities | 3,347,599 | 3,257,767 |
| | 7,175,627 | 10,433,390 |

It is the municipality's policy to lease certain motor vehicles and equipment under finance leases.

The average lease terms were 3 and 5 years and the average effective borrowing rate was 10.1% (2018: 10.1%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

16. Consumer deposits

| | | |
|-----------------------|------------|------------|
| Water and electricity | 22,590,657 | 20,993,784 |
|-----------------------|------------|------------|

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|---|------------------|------------------|
| Municipal Infrastructure Grant | - | (90) |
| Department of Co-operative Governance and Traditional Affairs | 704,984 | 704,984 |
| Water Demand Management | (2,090,115) | 79,057 |
| RBIG | - | 293,187 |
| Department of Energy | 8,360,979 | 510,480 |
| Extended Public Works Programme | - | 84,773 |
| | 6,975,848 | 1,672,391 |

Movement during the year

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 1,672,391 | 7,583,751 |
| Additions during the year | 140,728,041 | 238,640,976 |
| Income recognition during the year | (131,966,419) | (244,552,336) |
| Amounts repaid or overspent | (3,458,165) | - |
| | 6,975,848 | 1,672,391 |

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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|-----------------|------|------|
|-----------------|------|------|

17. Unspent conditional grants and receipts (continued)

These amounts are invested in a ring-fenced investment until utilised.

18. Employee benefit obligations

Defined benefit plan

Reconciliation of employee benefits obligation - 2019

| | Opening Balance | Additions | Total |
|---------------------------------------|--------------------|------------------|-------------------|
| Employee benefit cost medical | 33,994,000 | 5,128,000 | 39,122,000 |
| Employee benefits long service awards | 15,135,000 | 424,000 | 15,559,000 |
| | 49,129,000 | 5,552,000 | 54,681,000 |

Reconciliation of employee benefits obligation - 2018

| | Opening Balance | Additions | Total |
|---------------------------------------|--------------------|------------------|-------------------|
| Employee benefit cost medical | 27,293,577 | 6,700,423 | 33,994,000 |
| Employee benefits long service awards | 13,299,467 | 1,835,533 | 15,135,000 |
| | 40,593,044 | 8,535,956 | 49,129,000 |

Employee benefit obligation - medical

Carrying value

| | | |
|---|-------------------|-------------------|
| Present value of the defined benefit obligation-wholly unfunded | 33,994,000 | 27,293,577 |
| Current service cost | 534,000 | 399,902 |
| Interest cost | 3,304,000 | 2,446,487 |
| Benefits paid | (2,244,000) | (1,783,000) |
| Actuarial loss/(gain) | 3,534,000 | 5,637,034 |
| | 39,122,000 | 33,994,000 |

Continued Medical aid membership

Municipal employees contribute to accredited medical schemes.

Metsimaholo Local Municipality

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|-----------------|------|------|

18. Employee benefit obligations (continued)

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members that were employed prior to 2001 are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

The Projected Unit Credit Method has been used to value the liabilities.

Accrued liability

Category of member

| | | |
|----------------------|------------|------------|
| In - service members | 17,208,000 | 18,074,000 |
| Continuation member | 21,914,000 | 15,920,000 |

All members

| | | |
|-----------------|------------|------------|
| Total liability | 39,122,000 | 33,994,000 |
|-----------------|------------|------------|

Liabilities and experience adjustments are made. The table summarises the accrued liabilities and the plan assets for the current period and the previous period.

History of liabilities and assets

| | | |
|------------------------------------|------------|------------|
| Present value of accrued liability | 39,122,000 | 33,994,000 |
|------------------------------------|------------|------------|

The experience adjustments for the current period is summarised below. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

| | | |
|----------------------------|-----------|-----------|
| Liabilities: (gain) / loss | 3,534,000 | 5,637,034 |
|----------------------------|-----------|-----------|

Best estimate of benefits payments expected in next annual period 2019/2020 (comparatives are for 2018/2019)

| | | |
|-----------------------------|-------------------|-------------------|
| Opening accrued liability | 39,122,000 | 33,994,000 |
| Current service cost | 536,000 | 534,000 |
| Interest cost | 3,786,000 | 3,304,000 |
| Benefits vesting | (2,418,000) | (2,000,000) |
| Total annual expense | 41,026,000 | 35,832,000 |

History of liabilities (R millions)

| | 30/06/2019 | 30/06/2018 | 30/06/2017 | 30/06/2016 | 30/06/2015 |
|-------------------|------------|------------|------------|------------|------------|
| Accrued liability | 39.122 | 33.994 | 27.294 | 25.140 | 25.989 |

Key financial assumptions

The table summarises the financial assumption used.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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|-----------------|------|------|
|-----------------|------|------|

18. Employee benefit obligations (continued)

| | |
|-----------------------------|---|
| Discount rate: | Yield Curve |
| Consumer price index (CPI) | Difference between nominal and yield curves |
| Medical cost inflation | CPI + 1% |
| Net effective discount rate | Yield Curve based |

Note: The valuation method calls for a basket of discount rates (matching bonds based on their remaining term to the expected lifespan of each individual); therefore it is not meaningful to indicate a single rate and not practical to indicate all rates used. This approach was used in 2017/18 and 2018/19.

| | |
|--|----------------|
| Average retirement age | 63 |
| Proportion assumed married at retirement | 90% |
| Mortality during employment | SA 85-90 |
| Mortality post-retirement | PA 90 ultimate |

| | |
|---|----|
| Number of in service members | 69 |
| Number of continuation members (pensioners) | 52 |
| Net effective discount rate | |

Medical aid inflation

Summarised results of the sensitivity analysis.

Sensitivity analysis on the accrued liability (R Millions)

| Assumption | Change | Valuation Assumption |
|-----------------------|--------|----------------------|
| Central assumptions | | 39.189 |
| Mortality rate | -20% | 41.706 |
| | +20% | 37.044 |
| Medical aid inflation | -1% | 38.264 |
| Medical aid inflation | +1% | 39.862 |

Long term service awards

| | | |
|----------------------------------|-------------------|-------------------|
| Balance at beginning of the year | 15,135,000 | 13,299,467 |
| Current-service cost | 1,967,000 | 1,687,032 |
| Interest cost | 1,421,000 | 1,037,468 |
| Actuarial (gain) / loss | (1,064,000) | 1,011,033 |
| Employer benefit payments | (1,900,000) | (1,900,000) |
| | 15,559,000 | 15,135,000 |

Best estimate of benefits payments expected in next annual period 2019/2020 (comparatives are for 2018/2019)

| | | |
|-----------------------------|-------------------|-------------------|
| Opening accrued liability | 15,559,000 | 15,135,000 |
| Current service cost | 2,018,000 | 1,967,000 |
| Interest cost | 1,455,000 | 1,421,000 |
| Benefit vesting | (2,147,000) | (1,900,000) |
| Total annual expense | 16,885,000 | 16,623,000 |

Long service awards

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

| | Female | Male | Total |
|--------------------------------------|--------|------|-------|
| Number of eligible employees | 200 | 522 | 722 |
| Average annual salary | | | |
| Salary-weighted average past service | | | |

Metsimaholo Local Municipality

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|-----------------|------|------|
|-----------------|------|------|

18. Employee benefit obligations (continued)

Metsimaholo Local Municipality offers employees long service awards for every 5 years of services completed. There are two policies in place.

| Completed service (in years) | Long service bonuses % annual salary | Description |
|------------------------------|---|--|
| 5 | 4.0% | $(5/250 + 2\%) \times \text{annual salary}$ |
| 10 | 7.0% | $(10/250 + 3\%) \times \text{annual salary}$ |
| 15 | 10.0% | $(15/250 + 4\%) \times \text{annual salary}$ |
| 20 | 11.0% | $(15/250 + 5\%) \times \text{annual salary}$ |
| 25,30,35,40,45 | 12.0% | $(15/250 + 6\%) \times \text{annual salary}$ |

722 Employees benefit from this policy.

Special leave pay

38 of the employees receive an additional six days of annual leave once they reach their five years of service.

Retirement gifts

246 employees are entitled to receive a retirement gift of 2% of annual salary at retirement. Employees must have at least 20 years of service to be eligible for the benefit.

The Projected Unit Credit Method has been used to value the liabilities.

Key Financial assumptions

The table summarised the financial assumptions used.

| | |
|-----------------------------|---|
| Discount rate: | Yield Curve |
| Consumer price index (CPI) | Difference between nominal and yield curves |
| Salary inflation | CPI + 1% |
| Net effective discount rate | Yield Curve based |

Note: The valuation method calls for a basket of discount rates (matching bonds based on their remaining term to the expected lifespan of each individual); therefore it is not meaningful to indicate a single rate and not practical to indicate all rates used. This approach was used in 2017/18 and 2018/19.

The salaries used in the valuation include an assumed increase on 1 July 2018 of 6%.
The next salary increase was assumed to take place in July 2018.

| | |
|-----------------------------|----------|
| Average retirement age | 63 |
| Mortality during employment | SA 85-90 |

Sensitivity analysis on the accrued liability (R Millions)

| Assumption | Change | Valuation Assumption |
|---------------------|--------|----------------------|
| Central assumptions | | 15.559 |
| Withdrawal rate | -20% | 16.287 |
| | +20% | 14.894 |
| Salary inflation | -1% | 14.635 |
| | +1% | 16.575 % |

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher than that shown.

| History of liabilities (R millions) | 30/06/2019 | 30/06/2018 | 30/06/2017 | 30/06/2016 | 30/06/2015 |
|-------------------------------------|------------|------------|------------|------------|------------|
| Accrued Liability | 15.559 | 15.135 | 13.299 | 14.013 | 15.537 |

Metsimaholo Local Municipality

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|-----------------|------|------|

18. Employee benefit obligations (continued)

19. Long term portion - long term loan

| | | |
|---|-----------|-----------|
| Development Bank of Southern Africa Limited - Non-current portion | - | 1,634,939 |
| Development Bank of Southern Africa Limited - Current portion | 1,634,939 | 1,501,886 |

Terms and conditions

The original loan amount approved was R 19 000 000 but only R 9 000 000 was disbursed in the 2012/2013 financial year. The interest on the loan is fixed at 8.67% with capitalisation every 6 months but will be levied at 10.67% on arrear amounts. The interest and capital repayment is made every 6 months in 14 equal instalments of R 871 356 over 7 years. The loan is unsecured but the application of the loan is conditional to specific projects.

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|-----------------|------|------|
|-----------------|------|------|

20. Provisions

Reconciliation of provisions - 2019

| | Opening Balance | Unwinding of interest | Change in timing, amount or discount factor | Total |
|------------------------------|-----------------|-----------------------|---|------------|
| Environmental rehabilitation | 77,980,482 | 5,905,868 | 1,275,203 | 85,161,553 |

Reconciliation of provisions - 2018

| | Opening Balance | Unwinding of interest | Change in timing, amount or discount factor | Total |
|------------------------------|-----------------|-----------------------|---|------------|
| Environmental rehabilitation | 75,884,580 | 5,785,732 | (3,689,830) | 77,980,482 |

Provision for landfill closure

The landfill rehabilitation and closure are created for the rehabilitation and closure of the current operational sites which are evaluated at each year-end to reflect the best estimate at reporting date. The sites under consideration are the Sasolburg, Oranjeville and Deneysville landfill sites. The valuation for the landfill sites were performed by Messrs Hill and van Schoor from iX Engineers. Messrs Hill and van Schoor are professional engineers, and members of the Engineering Council of South Africa.

Key financial assumptions used in this calculation were as follows:

| Assumption | Sasolburg landfill | Oranjeville landfill | Deneysville landfill |
|---------------|--------------------|----------------------|----------------------|
| CPI | 4.64% | 4.64% | 4.64% |
| Discount rate | 6.35% | 8.10% | 6.35% |

The 2018 amount of the discounted landfill closure provision of R33 431 342 represents a increase of R1 580 404 over the provision of R31 850 380 in the previous financial year. Composition of this change relate to changes in the CPI, discount rate and unit costs.

The 2018 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2018. The size of the landfill sites used up until now and estimate remaining useful lives are as follows:

| | Sasolburg landfill | Oranjeville landfill | Deneysville landfill |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Approximate footprint at 30 June 2019 | 15.016 ha | 2.4 ha | 1.57 ha |
| Remaining useful lives | approximately 1 years | approximately 8 years | approximately 1 years |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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|--|---------------------|---------------------|
| 21. Service charges | | |
| Sale of electricity | 272,952,669 | 261,348,293 |
| Sale of water | 365,987,162 | 321,161,123 |
| Solid waste | 32,023,702 | 30,149,761 |
| Sewerage and sanitation charges | 27,518,188 | 25,981,911 |
| | 698,481,721 | 638,641,088 |
| Forgone income (free portion) | | |
| Electricity | (8,059,933) | (4,918,588) |
| Sewerage and sanitation | (6,294,483) | (5,349,819) |
| Solid waste | (11,608,049) | (8,962,192) |
| Water | (10,789,463) | (9,727,805) |
| | (36,751,928) | (28,958,404) |
| 22. Licences and permits (exchange) | | |
| Trading licence | 105,569 | 115,270 |
| 23. Other income | | |
| Billboards | 196 | 43,365 |
| Building plan fees | 631,031 | 583,093 |
| Cemetary fees | 427,806 | 408,568 |
| Clearance certificate | 2,708 | 541 |
| Entrance fees | 1,034,424 | 1,287,713 |
| Fire service | 576,624 | 612,798 |
| Lost library books | - | 22 |
| Private telephone calls | 238,341 | 240,116 |
| Sundry income | 560,432 | 5,634,134 |
| | 3,471,562 | 8,810,350 |
| 24. Investment revenue | | |
| Dividend revenue | | |
| Dividends Sanlam Limited | 115,088 | 106,973 |
| Interest revenue | | |
| Interest received - short term investments | 3,783,637 | 3,782,188 |
| | 3,898,725 | 3,889,161 |
| 25. Property rates | | |
| Rates revenue | | |
| Commercial | 11,822,634 | 10,766,176 |
| Heavy Industries | 33,516,167 | 29,559,856 |
| Residential | 83,458,537 | 89,134,324 |
| Small holdings and farms | 18,428,187 | 10,176,174 |
| State | 12,689,594 | 11,829,425 |
| Less: Income forgone | (16,266,687) | (16,966,549) |
| | 143,648,432 | 134,499,406 |

Metsimaholo Local Municipality

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| Figures in Rand | 2019 | 2018 |
|--|-------------------|-------------------|
| 25. Property rates (continued) | | |
| Valuations | | |
| 5 year: Tax Holiday | 21,781 | 33,747 |
| Churches | 97,960 | 97,425 |
| Commercial | 931,515 | 905,349 |
| Heavy/light industries | 1,050,736 | 975,810 |
| Municipal | 450,991 | 441,951 |
| Public Benefit Organisation/Service Infrastructure | 49,393 | 49,898 |
| Residential | 8,336,680 | 8,094,698 |
| Small holdings and farms | 3,033,719 | 2,993,361 |
| State | 692,751 | 688,496 |
| Allocated, unregistered stands | 169,366 | 208,126 |
| | 14,834,892 | 14,488,861 |

Valuations on land and buildings are normally performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2019.

Rebates up to R35 000 (2018: R35 000) are granted to residential and state property owners.

Rates are levied on a monthly basis, except farmland that is levied on an annual basis. Interest at prime plus 1% per annum is levied on rates outstanding after due date for payment.

The following properties are exempted from property rates:

- Properties owed by a religious body or organisation and residential property occupied by a minister of religion in full time service of the church
- Road reserves
- Railway reserves

Tariff structure (cents per Rand)

| | | |
|--|---------|---------|
| Business | 0.01780 | 0.01692 |
| Industries | 0.04453 | 0.04233 |
| Residential | 0.00889 | 0.00845 |
| State-owned property | 0.01780 | 0.01692 |
| Farmland | | |
| Residential | 0.00445 | 0.00423 |
| Business | 0.00889 | 0.00845 |
| Industries | 0.02230 | 0.02119 |
| Private owned towns, Body Corporate Sectional Titles | 0.00445 | 0.00423 |
| Mining | 0.02231 | 0.02121 |
| Agricultural | 0.00223 | 0.00212 |

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|-----------------|------|------|
|-----------------|------|------|

26. Government grants and subsidies

Operating grants

| | | |
|---|--------------------|--------------------|
| Equitable share | 163,296,165 | 142,708,999 |
| Expanded Public Works Programme Intergrated Grant | 1,084,773 | 915,227 |
| Financial Management Grant | 1,770,000 | 1,700,000 |
| Municipal Infrastructure Grant | 2,095,368 | 1,744,912 |
| Sector Education Training Authority Grant | 496,997 | 333,728 |
| Contribution COGTA | - | 873,956 |
| National Treasury - audit fees | - | 1,828,112 |
| Auditor General - debt forgiven | - | 224,412 |
| | 168,743,303 | 150,329,346 |

Capital grants

| | | |
|-----------------------------------|--------------------|--------------------|
| Department of Energy Grant | 3,289,021 | 9,490,470 |
| Department of Water Affairs Grant | 10,000,000 | 9,052,316 |
| Municipal Infrastructure Grant | 47,690,542 | 40,057,599 |
| Regional Bulk Infrastructure | 39,450,199 | 35,622,605 |
| | 100,429,762 | 94,222,990 |
| | 269,173,065 | 244,552,336 |

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|-------------------------------|--------------------|--------------------|
| Conditional grants received | 102,260,603 | 89,740,271 |
| Unconditional grants received | 166,066,164 | 142,708,999 |
| | 268,326,767 | 232,449,270 |

Equitable Share

In terms of the Constitution of the Republic of South Africa, this grant is used to subsidise the provision of basic services to indigent community members.

A Council Resolution was taken to use some of the grant for free basic services to residents. Equitable share is also used to allocate and basic sewer per month to all households. Indigent households are allocated 6kl of water, 50 kWh of electricity, additional sewer, refuse, and R50 per month on Rates.

Financial Management Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 1,770,000 | 1,700,000 |
| Conditions met - transferred to revenue | (1,770,000) | (1,700,000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

The municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.

Expanded Public Works Programme Integrated Grant

| | | |
|---|-------------|---------------|
| Balance unspent at beginning of year | 84,773 | - |
| Current-year receipts | 1,000,000 | 1,000,000 |
| Conditions met - transferred to revenue | (1,084,773) | (915,227) |
| | - | 84,773 |

Metsimaholo Local Municipality

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|-----------------|------|------|

26. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

Provide explanations of conditions still to be met and other relevant information.

Municipal Infrastructure Grant

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | (90) | 5,356,759 |
| Current-year receipts | 49,786,000 | 36,667,000 |
| Conditions met - transferred to revenue | (49,785,910) | (42,023,849) |
| | - | (90) |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

Funds received for installation of infrastructure.

RBIG Department of Water Affairs Grant

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | (2,654,498) | - |
| Current-year receipts | 42,104,696 | 32,746,769 |
| Conditions met - transferred to revenue | (39,450,198) | (35,401,267) |
| | - | (2,654,498) |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

The municipality received funds from the Department of Water Affairs for water purification.

Department of Energy Grant

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | 510,480 | 1,442,951 |
| Current-year receipts | 11,650,000 | 10,000,000 |
| Conditions met - transferred to revenue | (3,289,021) | (9,490,470) |
| Withheld | (510,480) | (1,442,001) |
| | 8,360,979 | 510,480 |

Conditions still to be met - remain liabilities (see note 17).

Provide explanations of conditions still to be met and other relevant information.

Department of Co-operative and Traditional Affairs

| | | |
|--------------------------------------|---------|---------|
| Balance unspent at beginning of year | 704,984 | 704,984 |
|--------------------------------------|---------|---------|

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

Funds received for the installation of infrastructure.

Department of Co-operative Government and Traditional Affairs (COGTA)

| | | |
|---|---|-----------|
| Current-year receipts | - | 873,955 |
| Conditions met - transferred to revenue | - | (873,955) |
| | - | - |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

Grant from COGTA to pay a consultant that assisted the municipality.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|-----------|-----------|
| 26. Government grants and subsidies (continued) | | |
| Sector Education Training Authority Grant | | |
| Current-year receipts | 496,997 | 333,728 |
| Conditions met - transferred to revenue | (496,997) | (333,728) |
| | - | - |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

The municipality received funds from Sector Education Training Authority to promote excellence performance by the human resources division. The funds must be utilised towards training.

Water Demand Management (Free State Province)

| | | |
|---|--------------|------------------|
| Balance unspent at beginning of year | 2,947,684 | - |
| Current-year receipts | 10,000,000 | 12,000,000 |
| Conditions met - transferred to revenue | (10,000,000) | (9,052,316) |
| Repayment of unspent | (2,947,684) | - |
| | - | 2,947,684 |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

Grant from Free State Province to assist with water demand management.

Water demand grant

| | | |
|---|--------------------|---------------|
| Balance unspent at beginning of year | 79,057 | 79,057 |
| Current-year receipts | 25,690,348 | - |
| Conditions met - transferred to revenue | (25,690,348) | - |
| Additional amount spent | (2,169,172) | - |
| | (2,090,115) | 79,057 |

Conditions still to be met - remain liabilities (see note 17 - Unspent conditional grants and receipts).

Appointment of workers on the Extended Public Works Program.

27. Public contributions and donations

| | | |
|--------------------------------------|-------------------|-------------------|
| Public contributions and donations 1 | - | 221,338 |
| Public contributions and donations | 26,248,230 | 15,662,116 |
| Government Garage | 1,611,289 | - |
| | 27,859,519 | 15,883,454 |

[Provide explanations of conditions still to be met and other relevant information]

28. Fines, penalties and forfeits

| | | |
|-----------------------------|------------------|------------------|
| Overdue Books Fines | 93 | 14 |
| Court Traffic Fines | 859,092 | 696,070 |
| Municipal Traffic Fines | 3,019,778 | 8,568,120 |
| Tender Withdrawal Penalties | 176,154 | 587,218 |
| | 4,055,117 | 9,851,422 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---------------------------------------|--------------------|--------------------|
| 29. Employee related costs | | |
| Basic | 157,895,908 | 142,728,623 |
| Medical aid - company contributions | 19,123,743 | 17,691,189 |
| UIF | 1,336,049 | 1,282,856 |
| Leave pay and bonus provision | 2,069,702 | 2,191,953 |
| Leave pay accrual | 838,002 | 992,224 |
| Group Insurance | 228,308 | 235,681 |
| Actuarial (gain)/loss | 2,687,000 | 6,648,067 |
| Defined contribution plans | 26,023,485 | 24,524,190 |
| Overtime payments | 25,044,959 | 18,444,062 |
| Long-service awards | 1,139,252 | 1,995,521 |
| 13th Cheques | 12,932,001 | 11,408,721 |
| Acting allowances | 2,636,839 | 2,046,366 |
| Car allowance | 18,533,938 | 16,266,374 |
| Housing benefits and allowances | 2,433,165 | 3,674,052 |
| Long service award provision | 1,488,000 | 824,500 |
| Cell phone allowance | 1,223,562 | 1,084,951 |
| Standby allowance | 4,668,594 | 4,298,487 |
| Uniforms and protective clothes | 932,582 | 1,063,168 |
| Industrial council levy contributions | 77,483 | 72,732 |
| Contribution post retirement | 1,377,000 | 1,063,389 |
| Senior management as below | 5,928,186 | 9,943,295 |
| | 288,617,758 | 268,480,401 |

Remuneration of Accounting Officer

| | | |
|---|------------------|------------------|
| Annual Remuneration | 1,488,731 | 1,564,752 |
| Car Allowance | 240,000 | 240,000 |
| Contributions to UIF, Medical and Pension Funds | 1,785 | 1,785 |
| Telephone allowance | 36,000 | 36,000 |
| Acting allowance to Directors (1 July 2018 to 30 June 2019) | 613,279 | 190,661 |
| Entertainment allowance | 61,602 | 118,112 |
| | 2,441,397 | 2,151,310 |

Remuneration of Chief Financial Officer

| | | |
|---|------------------|------------------|
| Annual Remuneration | 341,057 | 1,912,471 |
| Car Allowance | 4,000 | 24,000 |
| Contributions to UIF, Medical and Pension Funds | 297 | 1,785 |
| Telephone allowance | 5,000 | 30,000 |
| Leave pay | 367,360 | - |
| Entertainment | 2,000 | 2,144 |
| Acting allowance by Managers (1 September 2018 to 30 June 2019) | 476,620 | - |
| | 1,196,334 | 1,970,400 |

Remuneration of Director Technical Service and Infrastructural Services

| | | |
|---|----------------|------------------|
| Annual Remuneration | - | 938,639 |
| Car Allowance | - | 341,076 |
| Contributions to UIF, Medical and Pension Funds | - | 1,487 |
| Entertainment | - | 25,000 |
| Leave Pay | - | 207,251 |
| Acting allowance by Managers(1 July 2018 to 30 June 2019) | 561,965 | 59,414 |
| | 561,965 | 1,572,867 |

Remuneration of Director Organisational Development and Corporate Services

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

29. Employee related costs (continued)

| | | |
|--|----------------|------------------|
| Annual Remuneration | - | 692,150 |
| Car Allowance | - | 60,000 |
| Contributions to UIF, Medical and Pension Funds | - | 892 |
| Housing subsidy | - | 60,000 |
| Telephone allowance | - | 15,000 |
| Leave | - | 172,207 |
| Acting allowance by Managers (1 July 2018 to 30 June 2019) | 569,843 | 378,904 |
| | 569,843 | 1,379,153 |

Remuneration of - Director Social Services

| | | |
|--|----------------|------------------|
| Annual Remuneration | - | 863,221 |
| Car Allowance | - | 126,667 |
| Contributions to UIF, Medical and Pension Funds | - | 1,189 |
| Housing subsidy | - | 80,000 |
| Telephone allowance | - | 20,000 |
| Leave | - | 179,930 |
| Entertainment | 4,820 | - |
| Acting allowance by Managers (1 July 2018 to 30 June 2019) | 514,441 | 266,235 |
| | 519,261 | 1,537,242 |

Remuneration of Director Economic Development

| | | |
|--|----------------|------------------|
| Annual Remuneration | - | 814,513 |
| Car Allowance | - | 180,000 |
| Contributions to UIF, Medical and Pension Funds | - | 1,189 |
| Housing subsidy | - | 66,667 |
| Telephone allowance | - | 20,000 |
| Leave | - | 23,018 |
| Entertainment | 1,748 | - |
| Acting allowance by Managers (1 July 2018 to 30 June 2019) | 637,638 | 226,936 |
| | 639,386 | 1,332,323 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|-------------------|------------------|
| 30. Remuneration of Councillors | | |
| Executive Mayor | 902,971 | 470,281 |
| Council Whip | 688,103 | 362,847 |
| Mayoral Committee Members | 4,384,946 | 2,386,989 |
| Speaker | 731,075 | 384,333 |
| Councillors | 10,847,015 | 5,963,470 |
| Administrator's allowance | - | 428,890 |
| | 17,554,110 | 9,996,810 |

Remuneration per councillor

Executive Mayor

Tshongwe S L (from 21 December 2017) 902,971 470,281

Council Whip

Nyembe B V (Council Whip from 21 December 2017) 622,418 362,847

Mashia VL (Council Whip from 29 May 2019) 65,685 -

Mayoral Committee Members

Semonyo LS (from 18 January 2018) 689,003 296,494

Mtshali NM (from 20 March 2019) 184,356 -

Mofokeng KB (from 18 June 2019) 24,804 -

Mosokweni F (from18 January 2018 - December 2018 and 20 March 2019 to 30 June 2019) 461,110 296,494

Fisher L (18 January 2018- 4 October 2018; 20 March 2019- 30 June 2019) 350,408 296,494

Mokoena NP (from 18 January 2018 to 4 October 2018 and 20 March 2019 to 30 June 2019) 350,408 296,494

Makhefu LA (from 18 January 2018- 30 November 2018) 276,755 296,494

Malindi MJ (from 18 January 2018) 689,003 296,494

Nyaku DJ (from 18 January 2018-28 May 2019) 659,146 296,494

Poho MS (from 18 January 2018) 689,003 296,494

Speaker

Mabasa KT (Speaker from 21 Decemebr 2017) 731,075 384,333

Councillors

Barnard JJ (from 1 Decemebr 2017) 316,390 178,459

Burger GS (from December 2017) 316,390 178,459

Du Plooy (from1 December 2017 till 21 November 2018) 127,254 178,459

Du Toit T 316,390 178,459

Dywili NN (from 1 December 2017) 316,390 178,459

Fisher L (from 1 December 2017 and MAYCO member 28 January 2018 - 4 October 2018 and from 20 March 2019 to 30 June 2019) 170,134 46,800

Gaigher L (from 10 August 2016 and MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017 to 31 March 2018) - 101,967

Grobbelaar JJ 316,390 178,459

Kobo SS (from 1 December 2017; Chair person Streetnaming 3 April 2019) 399,900 178,459

Leotlela MG (from 1 Decemebr 2017) 316,390 178,459

Mbana MT (from15 November 2018) 199,747 -

Mahlaela PM (from 1 Decemebr 2017) 316,390 178,459

Makhefu L A (from 1 February 2017; 1 December 2017; MAYCO 18 January 2018- 30 November 2018; Chairperson Ethics 3 April 2019 -30 June 2019) 276,225 46,800

Malindi MJ (1 December 2017; MAYCO 18 January 2018) - 46,800

Mare AK 316,390 178,459

Maseko ME (from 1 December 2017) 316,390 178,459

Matwa SM (from18 July 2018) 302,680 -

Meyer R (from 18 July 2018) 302,680 -

Mofokeng TH (from 1 December 2017) 316,390 178,459

Mohapi P (from 1 Decemebr 2017) 316,390 178,459

Mokoena MP (from 10 August 2016; 1 December 2017) 316,390 178,459

Mokoena NP (from 1 December 2017; MAYCO 18 January 2018 30 September 2018; April 2019 -30 June 2019) 170,134 46,800

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|-------------------|------------------|
| 30. Remuneration of Councillors (continued) | | |
| Mokoena TS (from 1 December 2017; | 26,356 | 178,459 |
| Molawa M (from 1 December 2017; MPAC chairperson 25 January 2018)) | 670,093 | 326,829 |
| Mosokweni F (from 18 January 2018 - December 2018 and 20 March 2019 to 30 June 2019) | 113,215 | 46,800 |
| Motaung TA (from 1 December 2017) | 316,390 | 178,459 |
| Motjeane SM (from 1 December 2017) | 316,391 | 178,459 |
| Motlhale S (from December 2017 -23 October 2018) | 99,346 | 178,459 |
| Motlounng TM (from 1 December 2017) | 316,391 | 178,459 |
| Mtshali NM (from 1 December 2017: MAYCO member from 20 March 2019) | 234,714 | 178,459 |
| Nhlapo LL (from 1 December 2017) | 316,391 | 178,459 |
| Nkheloane M (from 1 December 2017) | 316,391 | 178,459 |
| Nnune GB | 316,391 | 178,459 |
| Nteso SJ | 316,391 | 178,459 |
| Nyaku DJ (1 December 2017; MAYCO member 18 January 2018) | - | 46,800 |
| Poho MS (till 9 August 2016; 1 December 2017; MAYCO member 28 January 2018) | - | 46,800 |
| Semonyo LS (till 9 August 2016 ; 1 December 2017 MAYCO member 18 January 2018) | - | 46,800 |
| Taats TJ (from 1 December 2017) | 316,391 | 178,459 |
| Telane MM (from 10 August 2016; 1 December 2017) | 316,391 | 178,459 |
| Tsotetsi L | 316,391 | 178,459 |
| Van der Merwe FJ (from 1 December 2017) | 316,391 | 178,459 |
| Van Heerden (from 4 January 2019) | 172,116 | - |
| Zwane ZJ (from 1 December 2017) | 316,391 | 178,459 |
| Administrator (1 July 2017 to 30 November 2017) | - | 428,890 |
| | 17,554,110 | 9,996,810 |

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in Section 219 of the Constitution.

31. Depreciation and amortisation

| | | |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 71,158,503 | 73,288,731 |
| Investment property | 23,020 | 23,020 |
| Intangible assets | 936,617 | 936,617 |
| | 72,118,140 | 74,248,368 |

32. Finance costs

| | | |
|------------------------------------|------------------|------------------|
| Unwinding of interest on provision | 5,905,868 | 5,785,732 |
| Bank | 372,980 | 314,172 |
| Finance leases | 818,300 | 1,250,550 |
| Non-current borrowings | 240,826 | 363,020 |
| Trade and other payables | 725,281 | 559,610 |
| | 8,063,255 | 8,273,084 |

33. Lease rentals on operating lease

| | | |
|-----------------------|------------------|-------------------|
| Motor vehicles | | |
| Contractual amounts | 1,923,719 | 2,270,544 |
| Equipment | | |
| Contractual amounts | 7,154,325 | 8,239,851 |
| | 9,078,044 | 10,510,395 |

The leases are entered in to on month-to-month or ad hoc bases, and, therefore, do no have escalation clauses or commitments.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

34. Debt impairment

| | | |
|---|-------------|-------------|
| Contributions to debt impairment - exchange | 168,448,196 | 160,445,391 |
|---|-------------|-------------|

35. Bulk purchases

| | | |
|---------------------|--------------------|--------------------|
| Electricity - Eskom | 225,639,059 | 206,554,078 |
| Water | 171,640,551 | 131,789,428 |
| | 397,279,610 | 338,343,506 |

| | Total sales (units) | Less total purchases (units) | (Loss)/gain (units) | % loss on purchases | Rand value of loss at purchase price |
|-------------|------------------------|------------------------------------|------------------------|------------------------|--|
| 2019 | | | | | |
| Electricity | 205,644,368 | 218,799,914 | 13,155,546 | (6)% | 10,352,646 |
| Water | 16,607,069 | 19,847,089 | 3,240,020 | (16)% | 30,300,137 |
| | 222,251,437 | 238,647,003 | 16,395,566 | | 40,652,783 |
| 2018 | | | | | |
| Electricity | 196,494,984 | 216,903,112 | (19,598,127) | (9)% | 15,686,341 |
| Water | 15,194,362 | 17,150,919 | (1,956,556) | (11)% | 16,307,842 |
| | 211,689,346 | 234,054,031 | (21,554,683) | | 31,994,183 |

Unaccounted consumption can be a result of:

- Distributions losses;
- Internal use that is not metered and not read;
- Illegal connections and theft.
- Supply to informal areas that have not yet been formalised.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|-------------------|-------------------|
| 36. Contracted services | | |
| Outsourced services | | |
| Administrative and support staff (printing service) | 2,976,975 | 3,558,589 |
| Business and Advisory | 2,500 | - |
| Catering services | 191,651 | - |
| Cleaning services | 2,971,917 | 2,925,590 |
| Connection/disconnection | 961,965 | 1,356,533 |
| Traffic fines management | 143,477 | 398,977 |
| Transport services | 560,164 | 246,171 |
| Consultants and professional services | | |
| Business and advisory | 13,200,185 | 5,734,493 |
| Infrastructure and planning | 867,094 | 575,322 |
| Legal cost | 10,589,311 | 10,162,572 |
| Contractors | | |
| Catering services | 744,715 | 87,582 |
| Graphic designers | 183,000 | - |
| Maintenance of buildings and facilities | 880,331 | 4,386,663 |
| Maintenance of equipment | 5,711,943 | 9,432,130 |
| Maintenance of unspecified assets | 1,831,657 | 2,683,422 |
| Traffic and street lights | 649,313 | 292,373 |
| Safeguard and security | 18,901,662 | 14,909,002 |
| Sewerage services | 19,000,345 | 18,415,683 |
| Stage and sound crew | 475,340 | 173,997 |
| | 80,843,545 | 75,339,099 |
| 37. Grants and subsidies paid | | |
| Other subsidies | | |
| Bursaries | 242,958 | - |
| Burial | 53,575 | 9,000 |
| | 296,533 | 9,000 |
| 38. Operating expenditure | | |
| Advertising | 576,180 | 1,954,769 |
| Auditors remuneration | 9,445,210 | 6,406,051 |
| Bank charges | 632,950 | 553,154 |
| Bursaries | 246,482 | 318,139 |
| Commission paid | 9,402,431 | 8,904,426 |
| Entertainment | 54,340 | 98,675 |
| Hire | 39,152 | 35,500 |
| Insurance | 4,768,933 | 2,718,368 |
| IT expenses | 3,788,540 | 3,461,575 |
| Inventory consumables | 17,038,798 | 14,021,544 |
| Postage and courier | 2,007,192 | 1,968,160 |
| Printing and publications | 190 | 9,163 |
| Royalties and license fees | 474,599 | 532,352 |
| Skills development levies | 2,310,328 | 2,130,748 |
| Subscriptions and membership fees | 2,965,692 | 3,019,951 |
| Telephone | 2,234,050 | 2,269,722 |
| Travel - local | 1,443,119 | 1,685,701 |
| Ward committee remuneration | 1,127,489 | 1,103,000 |
| Other expenses | 484,874 | 529,176 |
| | 59,040,549 | 51,720,174 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|-------------------|-------------------|
| 39. Cash generated from operations | | |
| Surplus | 97,005,287 | 104,019,627 |
| Adjustments for: | | |
| Depreciation and amortisation | 72,118,140 | 74,248,368 |
| (Gain)/loss on disposal of assets and liabilities | (1,513,879) | (1,362,245) |
| (Gain)/loss on inventory count | 193,720 | 543,063 |
| Fair value adjustments | (374,946) | (246,907) |
| Debt impairment | 168,448,196 | 160,445,391 |
| Movements in retirement benefit assets and liabilities | 5,552,000 | 8,535,956 |
| Assets received as donations | (27,859,519) | (15,883,454) |
| Unwinding of notional interest on landfill | 5,905,868 | 5,785,732 |
| Leave and 13th cheque accrual | 2,069,702 | 2,192,226 |
| Changes in working capital: | | |
| Inventories | (262,893) | 202,567 |
| Receivables from exchange transactions | (215,256,286) | (185,987,050) |
| Receivables from non-exchange transactions | (29,979,487) | (45,425,079) |
| Construction contracts and receivables | (18,451,758) | - |
| Payables from exchange transactions | (6,334,470) | (2,342,559) |
| VAT | 11,739,012 | (3,221,819) |
| Unspent conditional grants and receipts | 5,303,457 | (5,911,360) |
| Consumer deposits | 1,596,873 | 1,534,588 |
| Long term receivables | (1,280,126) | 642,815 |
| | 68,618,891 | 97,769,860 |

40. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

| | At fair value | At amortised cost | Total |
|--|------------------|--------------------|--------------------|
| Cash and cash equivalents | - | 13,877,193 | 13,877,193 |
| Other financial assets | 3,640,357 | - | 3,640,357 |
| Receivables from exchange transactions | - | 244,335,828 | 244,335,828 |
| Receivables from non-exchange transactions | - | 117,303,658 | 117,303,658 |
| | 3,640,357 | 375,516,679 | 379,157,036 |

Financial liabilities

| | At amortised cost | Total |
|---|--------------------|--------------------|
| Consumer deposits | 22,590,657 | 22,590,657 |
| Finance lease obligation | 7,175,623 | 7,175,623 |
| Employee benefit obligation | 54,681,000 | 54,681,000 |
| Long term loan | 1,634,939 | 1,634,939 |
| Payables from exchange transactions | 198,030,114 | 198,030,114 |
| Unspent conditional grants and receipts | 6,975,848 | 6,975,848 |
| | 291,088,181 | 291,088,181 |

2018

Financial assets

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

40. Financial instruments disclosure (continued)

| | At fair value | At amortised cost | Total |
|--|------------------|----------------------|--------------------|
| Cash and cash equivalents | - | 21,042,894 | 21,042,894 |
| Other financial assets | 3,230,858 | 34,553 | 3,265,411 |
| Receivables from exchange transactions | - | 195,883,931 | 195,883,931 |
| Receivables from non-exchange transactions | - | 87,539,410 | 87,539,410 |
| | 3,230,858 | 304,500,788 | 307,731,646 |

Financial liabilities

| | At amortised cost | Total |
|---|----------------------|--------------------|
| Consumer deposits | 20,993,784 | 20,993,784 |
| Finance lease obligation | 10,433,390 | 10,433,390 |
| Employee benefit obligation | 49,129,000 | 49,129,000 |
| Payables from exchange transactions | 226,925,897 | 226,925,897 |
| Long term loan | 3,136,825 | 3,136,825 |
| Unspent conditional grants and receipts | 1,672,391 | 1,672,391 |
| | 312,291,287 | 312,291,287 |

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for

| | | |
|---------------------------------|-------------|-------------|
| • Property, plant and equipment | 105,631,545 | 128,437,928 |
|---------------------------------|-------------|-------------|

Total capital commitments

| | | |
|---|-------------|-------------|
| Already contracted for but not provided for | 105,631,545 | 128,437,928 |
|---|-------------|-------------|

Authorised operational expenditure

Already contracted for but not provided for

| | | |
|-------------------------|-----------|-----------|
| • Operating expenditure | 9,789,868 | 7,204,011 |
|-------------------------|-----------|-----------|

Total operational commitments

| | | |
|---|-----------|-----------|
| Already contracted for but not provided for | 9,789,868 | 7,204,011 |
|---|-----------|-----------|

Total commitments

Total commitments

| | | |
|------------------------------------|--------------------|--------------------|
| Authorised capital expenditure | 105,631,545 | 128,437,928 |
| Authorised operational expenditure | 9,789,868 | 7,204,011 |
| | 115,421,413 | 135,641,939 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|-------------------|-------------------|
| 42. Contingencies | | |
| The table below sets out the contingent liabilities at year end with the maximum potential liability to the municipality: | | |
| Housing loans | | |
| Various attorneys | | |
| Ukwazi Force CC / Metsimaholo Municipality | 6,500,000 | 6,500,000 |
| SAMRO NPC / Metsimaholo Municipality | 500,000 | 714,957 |
| Edge Forensic and Risk Consultants / Metsimaholo Municipality | - | 1,899,703 |
| Isak A van der Watt/Metsimaholo LM | 47,265 | 47,265 |
| J M Fusstenburg / Metsimaholo Municipality | - | 16,519 |
| Nkadimeng M R & Mofokeng M O / Metsimaholo Municipality | 100,000 | 100,000 |
| Steven Murray & associates/Metsimaholo Municipality | 41,034 | - |
| Calitz ACJ/Metsimaholo Municipality | 11,182 | - |
| Johan van Zyl/Metsimaholo Municipality | 12,135 | - |
| Christo van der Vyfer/Metsimaholo Municipality | 13,186 | - |
| Safcrete Construction/Metsimaholo Municipality | 24,419,308 | - |
| Multi Talent/Metsimaholo Municipality | 20,790 | - |
| Tjatja Nelson/Metsimaholo Municipality | 110,060 | - |
| Teboho Sylvester Khoathela //Metsimaholo LM | 22,322 | - |
| DDP Valuers (Pty) LTD/Metsimaholo Municipality | 350,000 | - |
| Loots Willem/Metsimaholo Municipality | 51,913 | - |
| Du Plooy T L/Metsimaholo Municipality | 15,000 | - |
| Department of Water and Sanitation /Metsimaholo Municipality | 23,712,924 | - |
| Mkwanazi Melato Inc | | |
| Metsimaholo Municipality / J Schoultz | 58,364 | 58,364 |
| Dreyer Albertus JP /Metsimaholo Municipality | 5,713,000 | 571,300 |
| Metsimaholo Municipality / Saaiman R | - | 100,000 |
| Ponoane Attorneys | | |
| Ernest L Lehani / Metsimaholo Local Municipality | 176,348 | 233,368 |
| Thabo Twala / Metsimaholo Local Municipality | 77,729 | - |
| Taats - EFF/Metsimaholo Local Municipality | 209,455 | - |
| Internal Legal Division | | |
| Le Roux JM / Metsimaholo Local Municipality | - | 12,937 |
| | 62,162,015 | 10,254,413 |

Other contingent liabilities

Unlicensed landfill site

The municipality managed three landfill sites without the required licences in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community

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|-----------------|------|------|
|-----------------|------|------|

Relationships

Refer to Accounting Officer's report note

Alaska One Enterprise (Pty) Ltd
In his footprints (Non-profitable Charity organisation)

In his footprints (Non-profitable Cha

Sibusisiwe (Pty) (Ltd) Construction

MATLAB Dynamics

Taxi Industry

Victor's Comprehensive Development (PTY) LTD

Victor's Communications Entertainment

WHIPHOLD

Omqusi-Amantimand Amahle Trading and Projects
(PTY)(LTD)

Flavius Mareka TVET College - ministerial appointee

Life V/A Kasi -private company

Botho Keng PTY Ltd

Jacques Barnard Consultants

Afriscapes CC (Capacity building)

New Redruth Motors CC

Roshgold Investment Holdings Limited

Roshgold Technologies Limited

Roshgold Ventures Limited

Roshmeadow Properties Limited

Top Share Equities (Pty) Ltd

Directorship: Albaraka Bank Limited

MTN Shares

Ke Ksale Developers

Afri - Logistix

Nereke Building Construction

Nereke Development Consultants

Refer to note 18

Refer to note 29

Refer to note 30

44. Comparative figures

45. Prior-year adjustments

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Metsimaholo Local Municipality

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45. Prior-year adjustments (continued)

Statement of financial position

2017

| | Note | As previously reported | Correction of error | Restated |
|--|------|------------------------|---------------------|-----------------|
| Current assets | | - | - | - |
| Inventories | | 15,225,314 | - | 15,225,314 |
| Other financial assets | | 3,018,504 | - | 3,018,504 |
| Receivables from exchange transactions | | 121,133,326 | - | 121,133,326 |
| Receivables from non-exchange transactions | | 91,323,285 | (215,240) | 91,108,045 |
| Cash and cash equivalents | | 12,627,595 | - | 12,627,595 |
| | | - | - | - |
| Non-current assets | | | | |
| Investment property | | 87,466,956 | 192,615,696 | 280,082,652 |
| Property, plant and equipment | | 1,192,898,003 | 142,440,153 | 1,335,338,156 |
| Intangible assets | | 4,421,285 | - | 4,421,285 |
| Heritage assets | | 561,001 | - | 561,001 |
| Receivables from non exchange transactions - long term | | 1,006,496 | - | 1,006,496 |
| | | - | - | - |
| Current liabilities | | | | |
| Payables from exchange transactions | | (222,859,778) | (4,216,452) | (227,076,230) |
| VAT payable | | (6,232,497) | - | (6,232,497) |
| Finance lease obligation | | (2,727,836) | - | (2,727,836) |
| Operating lease liability | | (2,361,153) | 2,361,153 | - |
| Consumer deposits | | (19,459,196) | - | (19,459,196) |
| Unspent conditional grants and receipts | | (7,583,751) | - | (7,583,751) |
| Short term portion - long term loan | | (1,379,692) | - | (1,379,692) |
| Employee benefit obligation | | (3,576,076) | - | (3,576,076) |
| | | - | - | - |
| Non-current liabilities | | | | |
| Finance lease obligation | | (9,637,580) | - | (9,637,580) |
| Long term portion - long term loan | | (3,136,825) | - | (3,136,825) |
| Employee benefit obligation | | (37,016,968) | - | (37,016,968) |
| Provisions | | (31,850,938) | (44,033,642) | (75,884,580) |
| | | - | - | - |
| Net assets | | | | |
| Accumulated surplus | | (1,181,859,475) | (288,951,668) | (1,470,811,143) |
| | | - | - | - |

2018

| | Note | As previously reported | Correction of error | Restated |
|--|------|------------------------|---------------------|-------------|
| Current assets | | - | - | - |
| Inventories | | 18,401,483 | - | 18,401,483 |
| Other financial assets | | 3,261,499 | 3,912 | 3,265,411 |
| Receivables from exchange transactions | | 196,428,617 | (544,686) | 195,883,931 |
| Receivables from non-exchange transactions | | 87,539,410 | (215,239) | 87,324,171 |
| Cash and cash equivalents | | 21,042,894 | - | 21,042,894 |

Metsimaholo Local Municipality

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45. Prior-year adjustments (continued)

| | | | |
|---|-----------------|---------------|-----------------|
| | - | - | - |
| Non-current assets | | | |
| Investment property | 85,604,936 | 192,615,696 | 278,220,632 |
| Property, plant and equipment | 1,238,419,688 | 121,145,653 | 1,359,565,341 |
| Intangible assets | 3,484,671 | - | 3,484,671 |
| Heritage assets | 561,001 | - | 561,001 |
| Investments in controlled entities | 363,681 | - | 363,681 |
| | - | - | - |
| Current liabilities | | | |
| Payables from exchange transactions | (222,233,300) | (4,692,592) | (226,925,892) |
| VAT payable | (3,120,600) | 109,922 | (3,010,678) |
| Finance lease obligation | (3,257,767) | - | (3,257,767) |
| Operating lease liability | (2,753,122) | 2,753,122 | - |
| Consumer deposits | (20,993,784) | - | (20,993,784) |
| Unspent conditional grants and receipts | (1,672,391) | - | (1,672,391) |
| Other current liability | (1,501,886) | - | (1,501,886) |
| Employee benefit obligation | (3,407,490) | (739,510) | (4,147,000) |
| | - | - | - |
| Non-current liabilities | | | |
| Finance lease obligation | (7,175,623) | - | (7,175,623) |
| Other financial liabilities | (1,634,939) | - | (1,634,939) |
| Employee benefit obligation | (40,725,557) | (4,256,443) | (44,982,000) |
| Provisions | (33,431,342) | (44,549,140) | (77,980,482) |
| | - | - | - |
| Net assets | | | |
| Accumulated surplus | (1,313,200,079) | (261,630,695) | (1,574,830,774) |
| | - | - | - |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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45. Prior-year adjustments (continued)

Statement of financial performance

2018

| | Note | As previously reported | Correction of error | Change in accounting policy | Restated |
|---|------|------------------------|---------------------|-----------------------------|--------------------|
| Revenue from exchange transactions | | - | - | - | - |
| Service charges | | 639,185,574 | (544,486) | - | 638,641,088 |
| Licences and permits | | 115,270 | - | - | 115,270 |
| Traffic and other fines | | 9,851,422 | - | (9,851,422) | - |
| Operational revenue | | 8,809,008 | 1,342 | - | 8,810,350 |
| Income legal costs | | 6,929,342 | (2,517,073) | - | 4,412,269 |
| Interest received - investment | | 3,535,282 | 3,912 | - | 3,539,194 |
| Dividends received | | 106,973 | - | - | 106,973 |
| Interest received - consumers | | 32,954,552 | - | - | 32,954,552 |
| Sale of stands | | 800,994 | - | - | 800,994 |
| Fair value adjustment on other financial assets | | 242,994 | - | - | 242,994 |
| Rental of facilities | | 6,156,372 | - | - | 6,156,372 |
| Gains on disposal | | - | 1,362,245 | - | 1,362,245 |
| | | - | - | - | - |
| Revenue from non-exchange transactions | | | | | |
| Property rates | | 134,499,406 | - | - | 134,499,406 |
| Transfers and subsidies | | 244,552,336 | - | - | 244,552,336 |
| Public contributions and donations | | 15,883,454 | - | - | 15,883,454 |
| Traffic and other fines | | - | - | 9,851,422 | 9,851,422 |
| | | - | - | - | - |
| Expenditure | | | | | |
| Employee related costs | | (262,460,492) | (5,935,906) | (84,003) | (268,480,401) |
| Remuneration of councillors | | (9,996,810) | - | - | (9,996,810) |
| Depreciation and amortisation | | (55,128,699) | (19,119,669) | - | (74,248,368) |
| Finance costs | | (4,023,939) | (4,249,145) | - | (8,273,084) |
| Lease rentals on operating lease | | (2,662,512) | 391,969 | (8,239,852) | (10,510,395) |
| Debt impairment | | (160,445,391) | - | - | (160,445,391) |
| Bulk purchases | | (338,343,506) | - | - | (338,343,506) |
| Contracted services | | (77,879,418) | 2,499,402 | 40,914 | (75,339,102) |
| Transfers and subsidies | | (9,000) | - | - | (9,000) |
| Write off of assets and liabilities | | (766,193) | 766,193 | - | - |
| Provision land fill site | | (1,580,404) | 1,580,404 | - | - |
| Inventory losses/write-downs | | (543,063) | - | - | (543,063) |
| Operating expenditure | | (58,442,948) | (1,560,165) | 8,282,941 | (51,720,172) |
| Surplus for the year | | 131,340,604 | (27,320,977) | - | 104,019,627 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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45. Prior-year adjustments (continued)

Error 1

During the audit of 2017/18, it was found that the provision for rehabilitation of the landfill sites was materially misstated as the incorrect valuation method had been used. The landfill sites were evaluated in the current year to determine an estimate of the costs of rehabilitating these (see note 20), and re-estimate the 2017/18 figures. This has been split below to Errors 1 - 3 to show the different components of the adjustment.

As a result, it was found that the provision was understated by R44 033 642 at 30 June 2017. Further, it was found that the initial estimate of the provision had not been raised and adjusted for changes in the timing, amount, or discount factor. An estimate of this was prepared, in terms of which it was determined that infrastructure assets under Property, plant and equipment were understated by R33 703 950. Had this been raised, it was estimated that accumulated depreciation on the asset, would be R25 150 969. The net impact on Property, plant and equipment, therefore is R8 552 981 (increase)

Statement of financial position

| | |
|-------------------------------|--------------|
| Property, plant and equipment | 8,552,981 |
| Provision | (44,033,642) |
| Accumulated surplus | 35,480,661 |
| | <u>-</u> |

Error 2

Following the adjustments to the landfill site in error 1 above, the movement in the provision originally recognised in 2017/18 (R1 580 404 increase) was reversed. The movement in the provision based on the revised estimated was calculated to be an increase of R5 785 732 due to the unwinding of interest, and a decrease of R3 689 830 due to changes in timing, amount, or discount rate. The overall impact was to increase the provision by a further R515 498.

Statement of financial position

| | | |
|------------------------------|---|-------------|
| Property plant and equipment | - | (3,689,830) |
| Provision | - | (515,498) |

Statement of financial performance

| | | |
|---------------------------|----------|-------------|
| Finance costs | - | 5,785,732 |
| Provision land fill sites | - | (1,580,404) |
| | <u>-</u> | <u>-</u> |

Error 3

Depreciation of R1 600 275 was provided for on the estimate of the rehabilitation of the land fill site capitalised to Property, plant and equipment.

Statement of financial position

| | |
|-------------------------------|-------------|
| Property, plant and equipment | (1,600,275) |
|-------------------------------|-------------|

Statement of financial performance

| | |
|-------------------------------|-----------|
| Depreciation and amortisation | 1,600,275 |
| | <u>-</u> |

Error 4

The operating lease liability provided for the government garage lease was reviewed, in light of the lease arrangement ending and many of the vehicles being donated to the municipality. There was no current obligation to pay this amount and the basis for the calculation was invalid as the lease was on a month-to-month basis, with no set expiry date or escalation clause.

Therefore, the lease obligation of R2 753 122 was reversed, of which R391 969 had been raised as a lease expense in the 2017/18 year and R2 361 153 in prior years (accumulated surplus)

Statement of financial position

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

45. Prior-year adjustments (continued)

| | |
|---|-------------|
| Operating lease liability | 2,753,122 |
| Accumulated surplus | (2,361,153) |
| Statement of financial performance | |
| Lease rentals on operating leases | (391,969) |
| | - |

Error 5

An error was noted in the raising of legal fees (contracted services) and the on-billing of these to the related debtors; both expense and income were understated by R2 517 073.

Statement of financial performance

| | |
|---------------------|-------------|
| Income legal costs | (2,517,073) |
| Contracted services | 2,517,073 |
| | - |

Error 6

It was found that finance costs had been raised in error to the value of R1 536 588; as a result, trade and other payables from exchange were also overstated by the same value.

Statement of financial position

| | |
|---|-------------|
| Trade and other payables from exchange | 1,536,588 |
| Statement of financial performance | |
| Finance costs | (1,536,588) |
| | - |

Error 7

Cut-off / timing errors in the recognition of back pay were noted in 2017/18 (R932 584) and earlier (R2 788 284), as such, Payables from exchange transactions was understated by R3 720 868.

Statement of financial position

| | |
|---|-------------|
| Payables from exchange transactions | (3,720,868) |
| Accumulated surplus | 2,788,284 |
| Statement of financial performance | |
| Employee related costs | 932,584 |
| | - |

Error 8

The employee benefit obligations were reassessed to ensure that they were being applied correctly (i.e. including all and only employees who met the necessary criteria). The original 2017/18 journal entries were reversed and the new values captured. This increased the Employee benefit obligation by R4 995 953, and Employee related costs by the same amount.

The split between current and non-current portions was also updated.

Statement of financial position

| | |
|---|-------------|
| Employee benefit obligation - current | (739,510) |
| Employee benefit obligation - non-current | (4,256,443) |
| Statement of financial performance | |
| Employee related costs | 4,995,953 |
| | - |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

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45. Prior-year adjustments (continued)

Error 9

A number of entries were identified in the prior year audit, and in subsequent investigations relating to entries being misallocated or processed in the incorrect period, or minor posting errors to the wrong accounts. The effects of these are shown below.

Statement of financial performance

| | |
|--|-------------|
| Other financial assets | 3,912 |
| Receivables from exchange transactions | (4,400) |
| Receivables from non-exchange transactions | (215,240) |
| Payables from exchange transactions | (2,508,312) |
| VAT Payable | 109,922 |
| Accumulated surplus | 1,029,968 |

Statement of financial performance

| | |
|-----------------------------------|-----------|
| Service charges | 4,200 |
| Operational revenue | (1,342) |
| Interest received - investment | (3,912) |
| Employee related costs | 91,372 |
| Lease rentals on operating leases | (12,421) |
| Contracted services | (23,243) |
| Operating expenditure | 1,529,496 |
| | - |

Error 10

An error was noted in the allocation of work in progress to infrastructure to the value of R613 439; accumulated surplus was overstated by this amount.

Statement of financial position

| | |
|-------------------------------|-----------|
| Property, plant and equipment | (613,439) |
| Accumulated surplus | 613,439 |
| | - |

Error 11

During the asset verification process, property, plant and equipment was identified with a value of R88 144 286. This was raised against accumulated surplus, and depreciation was provided for in 2017/18 of R15 560 831.

Statement of financial position

| | |
|-------------------------------|--------------|
| Property, plant and equipment | 72,583,455 |
| Accumulated surplus | (88,144,286) |

Statement of financial performance

| | |
|-------------------------------|------------|
| Depreciation and amortisation | 15,560,831 |
| | - |

Error 12

Receivables of R540 286, relating to the provision of sewerage services, were raised in error and these were reversed.

Statement of financial position

| | |
|--|-----------|
| Receivables from exchange transactions | (540,286) |
|--|-----------|

Statement of financial performance

| | |
|-----------------|---------|
| Service charges | 540,286 |
| | - |

Metsimaholo Local Municipality

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45. Prior-year adjustments (continued)

Error 13

During the asset verification, even in the name of municipality were identified which had not previously been recorded. The estimated value of these was R192 615 696; accumulated surplus was deemed to be understated by this amount.

Statement of financial position

| | |
|---------------------|---------------|
| Investment property | 192,615,696 |
| Accumulated surplus | (192,615,696) |
| | - |

Error 14

The transfer of the Harry Gwala Multi Purpose Centre to the municipality had not been recognised in the accounting records of the municipality. This was raised with a carrying value of R45 742 886; accumulated surplus was considered to be understated by the same amount.

Deprecation of R1 765 156 was then provided for on this in 2017/18.

Statement of financial position

| | |
|-------------------------------|--------------|
| Property, plant and equipment | 43,977,730 |
| Accumulated surplus | (45,742,886) |

Statement of financial performance

| | |
|---------------------------------|-----------|
| Financial performance line item | 1,765,156 |
| | - |

Error 16

During the asset verification, assets to the value of R2 128 438 were found which had to be recognised in the financial statements.

Statement of financial position

| | |
|-------------------------------------|-------------|
| Property, plant and equipment | 2,128,438 |
| Heading | |
| Gains on disposal | (1,362,245) |
| Write off of assets and liabilities | (766,193) |
| | - |

Reclassifications

The following reclassification adjustments occurred:

Reclassification 1

Traffic and other fines were considered to be non-exchange revenue and, therefore, these were reclassified on the face of the statement of financial performance.

Reclassification 2

Ad-hoc and month-to-month lease expenditure of R8 252 274 was reclassified from Operating expenditure to Lease rentals on operating leases. This was considered to provide a better understanding of the leasing activities of the municipality.

Statement of financial performance

| | |
|-----------------------------------|-------------|
| Lease rentals on operating leases | 8,252,274 |
| Operating expenditure | (8,252,274) |
| | - |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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|-----------------|------|------|
|-----------------|------|------|

46. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| At 30 June 2019 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|------------------|-----------------------|-----------------------|--------------|
| Consumer deposits | 22,590,657 | - | - | - |
| Finance lease obligation | 3,347,599 | 3,828,028 | - | - |
| Other financial liabilities | 1,634,939 | - | - | - |
| Payables from exchange transactions | 222,661,127 | - | - | - |
| Unspent conditional grants and receipts | 6,975,848 | - | - | - |
| At 30 June 2018 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Consumer deposits | 20,993,784 | - | - | - |
| Finance lease obligation | 3,257,767 | 3,347,599 | 3,828,028 | - |
| Other financial liabilities | 1,501,886 | 1,634,939 | - | - |
| Payables from exchange transactions | 226,925,895 | - | - | - |
| Unspent conditional grants and receipts | 1,672,391 | - | - | - |

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis, taking past payment behaviour into account.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2019 | 2018 |
|--|-------------|-------------|
| Cash and cash equivalents | 13,884,321 | 21,042,894 |
| Recoverable expenditure | 18,451,758 | - |
| Other financial assets | 3,640,357 | 3,265,411 |
| Receivables from exchange transactions | 242,692,021 | 195,883,931 |
| Receivables from non-exchange transactions | 117,303,658 | 87,324,171 |

Market risk

Interest rate risk

The municipality invests funds in short term investments; as such, there is some cash flow risk.

The municipality's borrowings are in fixed rate instruments. During 2019 and 2018, the municipality's borrowings were denominated in the Rand.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 47. Events after the reporting date | | |
| No events took place after the reporting date: | | |
| 48. Unauthorised expenditure | | |
| Opening balance | 19,380,908 | 19,380,908 |
| Incurred during the current year | 35,908,129 | - |
| | 55,289,037 | 19,380,908 |
| Nothing noted for 2017/2018 financial year. | | |
| Details of unauthorised expenditure - current year | | |
| Technical Services | 35,908,129 | - |
| Budget: R686 244 230 | | |
| Actual expenditure: R722 152 360 | | |
| 49. Fruitless and wasteful expenditure | | |
| Opening balance | 5,819,225 | 3,788,470 |
| Incurred in the current year | 22,372,735 | 2,255,167 |
| Interest waived by Auditor General 2017/2018 | - | (139,808) |
| Interest waived by Auditor General 2016/2017 | - | (84,604) |
| | 28,191,960 | 5,819,225 |
| Analysis of expenditure | | |
| Telkom- payment of telephone accounts. Interest charged on the late payment of accounts | 2 | 9,138 |
| Sheriff Sasolburg - payment of interest | 9,990 | 153,620 |
| Arbitration ward to employee | - | 78,859 |
| Auditor General - interest on late payment | 3,647 | 138,430 |
| Sasol Infrachem - interest on the late payment for sewer treatment | 1,928 | - |
| Edge Forensics - interest on late payment | - | 269,361 |
| ESKOM - interest paid on the late payments of electricity accounts | 5,585 | 5,273 |
| Free State Provincial Government - late payment of licence fees | 11,132 | - |
| Metsimaholo Sports complex - work not done | 21,647,454 | - |
| SA Post Office - interest on late payment | 80 | - |
| Department of Water - interest on late payment | 692,918 | 1,510,985 |
| BCX - interest on late payment | - | 35,660 |
| SARS - interest on VAT | - | 53,841 |
| | 22,372,736 | 2,255,167 |
| 50. Irregular expenditure | | |
| Opening balance | 255,058,412 | 241,672,119 |
| Add: Irregular Expenditure - current year | 58,040,885 | 13,386,293 |
| Add: Irregular expenditure - identified in current year relating to prior year | 39,447,853 | - |
| | 352,547,150 | 255,058,412 |

Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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| Figures in Rand | 2019 | 2018 |
|--|-------------------|-------------------|
| 50. Irregular expenditure (continued) | | |
| Analysis of expenditure awaiting condonation per age classification | | |
| Unauthorised sole supplier | - | 542,227 |
| Not submitting the minimum quotations for acquiring goods and services | 4,730,350 | 974,511 |
| Other (lowest quotation not selected, not on CSD, etc) | 24,091 | 2,595,000 |
| Contract / SLA expired i.e. exceeds three years, no valid approval for extension | 48,256,560 | 41,004,727 |
| Work performed without authorised order being issued | 1,882,342 | - |
| Deviation not valid | - | 421,907 |
| Regulation 32 Non- compliance (no cost/benefit analysis performed) | 3,147,542 | 7,295,774 |
| | 58,040,885 | 52,834,146 |
| 51. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 2,926,730 | 2,933,729 |
| Amount paid - current year | (2,926,730) | (2,933,729) |
| | - | - |
| Audit fees | | |
| Opening balance | 12,482 | 1,466,991 |
| Current year fee | 10,412,869 | 7,057,653 |
| Interest charged | 130,390 | 138,430 |
| Amount paid | (10,026,121) | (6,598,068) |
| Debt forgiven (interest waived) | (126,743) | (224,412) |
| Assistance from Treasury | - | (1,828,112) |
| | 402,877 | 12,482 |
| Note: the figures indicated above are inclusive of VAT. | | |
| PAYE and UIF | | |
| Current year subscription / fee | 47,306,017 | 41,440,057 |
| Amount paid - current year | (47,306,017) | (41,440,057) |
| | - | - |
| Pension and medical aid deductions | | |
| Current year subscription / fee | 64,433,328 | 66,081,804 |
| Amount paid - current year | (64,433,328) | (66,081,804) |
| | - | - |
| VAT | | |
| VAT payable | 14,749,690 | 3,010,678 |

All VAT returns have been submitted by the due date throughout the year.

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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

| 30 June 2019 | Outstanding amount R | Total R |
|---|-------------------------|----------------|
| Dywilli N N (Acc no 108921) | 21,018 | 21,018 |
| Kobo SS (Acc no 526816) | 29,388 | 29,388 |
| Leotlela P R (Acc no 536637 and 592959 | 21,307 | 21,307 |
| Mahlaela M D (Acc no 108353) | 3,894 | 3,894 |
| Malindi M J (Acc no 595729) | 5,130 | 5,130 |
| Matwa SM (Acc no 593277,612908 and 872070) | 19,351 | 19,351 |
| Maseko M E (Acc no 109049 ans590648) | 47,741 | 47,741 |
| Mokoena N (Acc no 596487, 791179,594135) | 52,299 | 52,299 |
| Motlhale S (Acc no 12921) | 15,141 | 15,141 |
| Mokoena P M (Acc no 553206) | 15,498 | 15,498 |
| Mokoena TS (Acc no 590215) | 51,146 | 51,146 |
| Mosokweni FD (Acc no 108066 3) | 62,002 | 62,002 |
| Motaung TA (Acc no 537934) | 11,802 | 11,802 |
| Motjeane SM (Acc no 106180) | 74,490 | 74,490 |
| Mtshali B P (Acc no 103466) | 39,922 | 39,922 |
| Nkheloane N E (Acc no 108037,575013 and 592910) | 45,821 | 45,821 |
| NYAKU-MAPHEELLE MM (Acc no 830645) | 11,702 | 11,702 |
| Poho M S (Acc no 512681) | 17,541 | 17,541 |
| Taats T J (Acc no 553229 | 2,084 | 2,084 |
| Telane P (Acc no 512521) | 69,386 | 69,386 |
| Tsotetsi P (Acc no 511192) | 35,713 | 35,713 |
| | 652,376 | 652,376 |

| 30 June 2018 | Outstanding amount R | Total R |
|---|-------------------------|----------------|
| Dywilli N N (Acc no 108921) | 13,923 | 13,923 |
| Kobo SS (Acc no 526816) | 17,371 | 17,371 |
| Leotlela P R (Acc no 536637 and 592959 | 18,978 | 18,978 |
| Mohapi P (Acc no 569717) | 2,880 | 2,880 |
| Mahlaela M D (Acc no 108353) | 977 | 977 |
| Malindi M J (Acc no 566943 and 595729) | 8,191 | 8,191 |
| Mofokeng T H (Acc no 33750) | 2,211 | 2,211 |
| Maseko M E (Acc no 109049 and 590648) | 43,277 | 43,277 |
| Mokoena N (Acc no 596487, 791179,594135 and 611209) | 49,988 | 49,988 |
| Molawa J M (Acc no 564125) | 554 | 554 |
| Motlhale S (Acc no 12921) | 8,493 | 8,493 |
| Mokoena P M (Acc no 553206) | 5,622 | 5,622 |
| Mokoena TS (Acc no 590215) | 46,980 | 46,980 |
| Mosokweni FD (Acc no 108066 3) | 42,111 | 42,111 |
| Motaung TA (Acc no 537934 and 595856) | 9,422 | 9,422 |
| Motjeane SM (Acc no 106180) | 46,379 | 46,379 |
| Mtshali B P (Acc no 103466) | 30,641 | 30,641 |
| Nkheloane N E (Acc no 108037 and 592910) | 39,613 | 39,613 |
| Nyembe V B (Acc no 569354) | 12,412 | 12,412 |
| Poho M S (Acc no 512681) | 14,183 | 14,183 |
| Semonyo L S (Acc no 830532) | 5,465 | 5,465 |
| Telane P (Acc no 512521) | 38,272 | 38,272 |
| Tsotetsi P (Acc no 511192) | 30,840 | 30,840 |
| | 488,783 | 488,783 |

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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

During the year no Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the supply chain management policy needs to be approved/condoned by the accounting officer and noted by Council. The expenses incurred as listed hereunder have been condoned.

52. Budget differences

Material differences between budget and actual amounts

1. Service charges - Electricity sales were less than the budgeted.

- Water restrictions contributed to lower revenue on water as well as certain areas that used water without being billed.

- Lower income at from the dumping sites than budget.

- Collection from sewerage and refuse services were higher than the budget

2. Interest received - Interest received on investments was higher than the budget and dividends on external investments were received in June 2019.

3. Licences and permits - The money collected on licences and street trading was less than the budgeted amount.

4. Other income - cemetery fees and entrance fees at the facilities were lower than anticipated in the budget.

5. Income legal cost - Fewer actions were taken against consumers than anticipated with the budget.

7. Property Rates - Assessment rates billed were more than budgeted.

8. Dividends on the Sanlam Pty Ltd shares were not considered in the budget.

9. Government grants and subsidies - less than the budget due to the R5 000 000 from Water Services Infrastructure Grant that was withheld and receiving less money from Integrated National Electrification Programme Grant

10. Fines revenue was significantly lower than budgeted for as the municipality was unable to issue camera based fines during the year.

11. Sale of consumables (tender documents) were higher than the budgeted amount

12. The councillors' remuneration actual expenditure was lower than the budget as councillors in the Mayoral Committee were fewer than anticipated in the budget during the financial year : July- September there were 8 members, October – November there were 6 members ,December – March there were 4 members and April – June there were 8 members.

13. Depreciation - a number of significant assets were brought in during the asset verification exercise, resulting in higher depreciation for the year.

14. Finance cost - the budget did not account for the unwinding of interest on the landfill rehabilitation provision.

15. Lease rental on operating lease - Government Garage expenditure was reduced as the related vehicles were withdrawn or donated to the municipality.

16. Water purchased higher than budgeted amount and electricity purchased is at 99.66% by end of June 2019.

17. Computer services did not exceed the budget (information services at 99.99%, software licences at 99.96% and systems development at 99.40%)

19. Insurance premiums and excess payments did not exceed the budget

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52. Budget differences (continued)

20. Commission of electricity sales exceeded the budget as more consumers converted to pre-paid electricity meters and various levels of consumption.

21. Contracted, outsourced and inventory services were less than the budget

53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next Council meeting and includes a note to the annual financial statements.

The reasons for deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviations from the normal supply chain management regulations.

Summary of deviations

| | | |
|-------------------------|-------------------|------------------|
| Emergency | 8,817,928 | 1,663,672 |
| Other | 4,590 | 150,108 |
| Accommodation | - | 170,415 |
| Exceptional/unpractical | 1,872,047 | 2,103,107 |
| Sole suppliers | 455,673 | 315,739 |
| | 11,150,238 | 4,403,041 |

54. Other asset 1